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IN THE

Supreme Court of the United States

JACK C. BENUN, JAZZ PRODUCTS LLC, POLYTECH ENTERPRISE LTD, and POLYTECH (SHENZHEN) CAMERA CO. LTD.,

Petitioners,

—v.—

FUJIFILM CORPORATION,

Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

The question presented is whether the authorized sale of an article that substantially embodies a patented invention exhausts the patentee's rights to use the patent law to control postsale disposition of such article, where the authorized sale occurs outside the United States.

PARTIES TO THE PROCEEDING

Petitioners, defendants in the proceedings below, are Jack C. Benun, Jazz Products LLC, and Polytech Enterprise Ltd. and Polytech (Shenzhen) Camera Co. Ltd. Respondent, the plaintiff in the proceedings below, is Fujifilm Corporation.

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JACK C. BENUN, ET AL.
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ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

Petitioners Jack C. Benun, Jazz Products LLC, Polytech Enterprise Ltd., and Polytech Camera (Shenzhen) Co. Ltd. respectfully petition this Court for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a–12a) is reported at 605 F.3d 1366. The order of the court of appeals denying Petitioners' application for rehearing *en banc* (Pet. App. 21a–22a) is reported at 2010 U.S. App. LEXIS 15920. The opinion and order of the United States District Court for the District of

New Jersey (Pet. App. 13a–20a) is reported at 2009 U.S. Dist. LEXIS 64465.

JURISDICTION

The judgment of the court of appeals was entered on July 20, 2010, after Petitioners' application for rehearing *en banc* was denied. The Supreme Court has jurisdiction pursuant to 28 U.S.C. § 1254(1).

STATEMENT

The issue presented by this petition is whether the authorized sale of an article which substantially embodies a patented invention exhausts the patentee's right to control that article using the patent laws, when such authorized sale occurs outside the United States. The lower courts herein ruled that authorized sales which occur outside the United States do not exhaust the patentee's rights.

In *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 128 S. Ct. 2109, 170 L. Ed. 2d 996 (2008), this Court ruled:

> The authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article.

Id. at 638. This Court expressed no territorial limitation on the rule of patent exhaustion.

Following this Court's remand of *Quanta* to the lower courts, the United States District Court for the

Northern District of California, in *LG Electronics, Inc. v. Hitachi America Ltd.*, 655 F. Supp. 2d 1036, 1045 (N.D. Cal. 2009), noted that *Quanta* involved goods sold abroad, and ruled that this Court's decision in *Quanta* set out an unconditional rule of patent exhaustion, which exhausted the patentee's rights regardless of where the authorized sale took place.[1]

In this case, however, the Federal Circuit reached the opposite conclusion, holding that this Court's *Quanta* decision neither involved nor affected foreign sales, Pet. App. 9a, and that the authorized sale of a patented article does not exhaust a patentee's rights when that sale occurs outside the United States, *ibid.* The Federal Circuit affirmed the district court's conclusion (*id.* at 19a) that this question was controlled solely by the Federal Circuit's decision in *Jazz Photo Corp. v. United States International Trade Commission* (*Jazz I*), 264 F.3d 1094, 1110 (Fed. Cir. 2001), *cert. denied*, 536 U.S. 950, 122 S. Ct. 2644, 153 L. Ed. 2d 823 (2002), which held that patent rights are exhausted only by an authorized sale which occurs within the United States.[2]

While courts and commentators have differed on the question of whether this Court's *Quanta* decision applies to patent exhaustion by reason of authorized foreign sales, there is broad consensus that the question is one of substantial importance to business and requires a clear resolution by this Court. *See, e.g.*, Harold C. Wegner, *International Patent Exhaustion: Whither the Supreme Court?*

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[1] *LG Electronics* was subsequently resolved by settlement.

[2] *Jazz I* involved the same patentee and the same patents as the instant case.

(May 27, 2010), http://grayonclaims.com/storage/InternationalExhaustionMay27.pdf. This case presents an appropriate vehicle for this Court to address and to resolve the "foreign exhaustion" issue once and for all.

Resolving this issue is a matter of great importance to patentees and consumers alike. Absent a clear, consistent rule concerning the geographic reach of the patent exhaustion doctrine, patentees will not know when they may resort to the patent laws to control the resale or disposition of patented goods, or when they must use contract law to impose such controls. Purchasers are at risk of being charged with patent infringement when they acquire or import goods that have been the subject of an authorized foreign sale for which the patentee has received compensation.

The facts of this case are straightforward. Respondent Fujifilm Corp. is the owner of various patents concerning the design and operation of "lens-fitted film packages" (LFFPs), more commonly known as disposable cameras. Pet. App. 2a. Fujifilm granted global licenses to practice these patents to various companies, including Eastman Kodak Company, Konica Minolta, and Concord Camera Company, and received compensation for its patent rights from each. Disposable cameras are sold to consumers who, after using them to take photographs, bring the cameras to photoprocessing laboratories, which crack them open, remove the film, and develop photographic prints and negatives; the laboratories retain, and dispose of, the spent "shells" of the disposable cameras. *Ibid.*

Petitioners Jack C. Benun, Jazz Products LLC, and Polytech Enterprise Ltd. and Polytech

(Shenzhen) Camera Co. Ltd. (collectively, "Polytech"), were engaged in the business of refurbishing used disposable cameras. Pet. App. 2a–3a. They purchased from photoprocessing laboratories in the United States the spent shells of disposable cameras that had been the subject of authorized sales by Fujifilm or its licensees, then sent the spent shells to China, where the shells were reloaded with film and resealed, photo counters were reset, and thumb wheels and batteries were checked; it is undisputed that these operations constituted "permissible repair," rather than impermissible "reconstruction" of the patented articles.[3] The repaired cameras were then imported into the United States, and sold to various large retail chains, such as Wal-Mart and Ritz Camera, which in turn sold them to the public. *Id.* at 15a.

Fujifilm sued Petitioners in the United States District Court for the District of New Jersey, charging them with patent infringement by reason of their importation and sale of the repaired cameras. Each of the cameras involved in the case was held substantially to embody one or more of the Fujifilm

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[3] That these operations constituted "permissible repair" had been previously adjudicated in trial proceedings—including proceedings in bankruptcy—involving a large number of the cameras involved in this action. *Fuji Photo Film Co. v. Benun* (In re *Benun*), No. 08-CV-1927, 2008 U.S. Dist. LEXIS 97524, at *20–21 (D.N.J. Dec. 1, 2008) ("The Bankruptcy Court . . . concluded that all the evidence showed permissible repair. . . . Fuji has given this Court no basis to review the Bankruptcy Court's factual findings on this matter."), *aff'd per curiam sub nom. Fujifilm Corp. v. Benun*, 328 F. App'x. 659 (Fed. Cir. 2009). The district court held this action governed by such determination.

patents-in-suit.[4] Petitioners asserted the affirmative defense of "permissible repair": that each of the subject cameras had undergone repair from spent camera shells, which had previously been the subject of a patent-exhausting "first sale." Pet. App. 18a–19a.

The case was tried before a jury. Pet. App. 5a. In pretrial motions, and again in a post-trial *Motion for Judgment as a Matter of Law* (JMOL), *id.* at 6a, the Petitioners asserted that, as a result of this Court's decision in *Quanta*, the prior authorized sales of the cameras by Fujifilm or one of its licensees had exhausted Fujifilm's right to use the patent law to control the subsequent resale or use of the cameras. The district court, holding the case to be controlled by the Federal Circuit's opinion in *Jazz I, supra*, held that Fujifilm's patent rights were exhausted only to the extent Petitioners could prove that the authorized "first sale" of the cameras in question had occurred *in the United States*. *Id.* at 16a.

It is undisputed that all of the camera shells had been the subject of authorized "first sales" by Fujifilm or its licensees. Although Petitioners had acquired all of the subject camera shells from photoprocessing laboratories in the United States, the district court instructed the jury that the "first sale" defense was established only to the extent Petitioners proved that the shells, when new, had been "first sold" *in the United States*. *Id.* at 14a.

The jury found that Petitioners had proven a domestic "first sale" with respect to most, but not all, of the cameras at bar. It found Petitioners liable for infringement, and awarded damages, for each

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[4] *Fujifilm Corp. v. Benun*, No. 2:05-CV-1863, 2008 U.S. Dist. LEXIS 49719 (D.N.J. June 30, 2008).

camera that Petitioners had not proven to have undergone its authorized "first sale" in the United States.[5]

On appeal to the Federal Circuit, Petitioners claimed that, in *Quanta* this Court had set out an unconditional rule that "[t]he authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article," 553 U.S. at 638, and that this rule was not subject to any expressed territorial limitation. Pet. App. 6a. Rejecting this claim (*id.* at 7a–9a), the Federal Circuit held that this Court's *Quanta* decision did not eliminate territoriality as an element of patent exhaustion, but instead "support[ed], rather than undermine[d], the exhaustion doctrine's territoriality requirement," *id.* at 9a.

The Federal Circuit's opinion made no mention of *LG Electronics*, *supra*, the district court proceedings following this Court's remand of *Quanta*, in which the district court concluded that imposing a territorial limitation on patent exhaustion "would be inconsistent with *Quanta*":

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[5] The evidence presented at trial by both sides was circumstantial. Neither side was able to produce direct evidence of where any "first sale" had occurred. The Court of Appeals for the Federal Circuit had previously ruled, however, that the affirmative defense of patent exhaustion by "first sale" could be proven through circumstantial evidence. *See Jazz Photo Corp. v. United States* (*Jazz II*), 439 F.3d 1344, 1351 (Fed. Cir. 2006) (ruling that the plaintiff "may carry its burden by presenting its case based upon circumstantial evidence" in a first sale case).

> Drawing such a distinction between authorized domestic sales and authorized foreign sales would negate the Supreme Court's stated intent in *Quanta* to eliminate the possibility of a patent holder doing an "end run" around the exhaustion doctrine by authorizing a sale, thereby reaping the benefit of its patent, then suing a downstream purchaser for patent infringement.

655 F. Supp. 2d at 1046. Petitioners believe that *LG Electronics* is the correct reading of this Court's *Quanta* decision.

In the instant case, however, Fujifilm has accomplished precisely the kind of "end run" that *Quanta* sought to prevent, reaping compensation from the authorized first sales of its cameras, and then suing downstream purchasers of those cameras under the patent laws, collecting compensation a second time. The Federal Circuit now holds that such an "end-run" is permissible, based solely upon its *Jazz I* decision, which held that patent rights are only exhausted when the authorized sale of a patented article occurs *in the United States*, 264 F.3d at 1110.

Despite this Court's adoption of a facially unconditional rule of patent exhaustion in *Quanta*, subsequent judicial proceedings evidence confusion and conflict over whether this Court's *Quanta* decision mandates exhaustion when the authorized sale of a patented article occurs abroad. This confusion leaves patentees and purchasers in limbo concerning when patent protection ends, and when a

downstream purchaser of a good (whether new or used) must compensate a patentee who has already reaped the benefits of its patent rights through an authorized sale of the patented article. This Court has never explicitly addressed the question of patent exhaustion by foreign sales. The instant case provides an appropriate—indeed, an ideal—vehicle for resolving that confusion.

REASONS FOR GRANTING THE PETITION

A. This Court Should State Definitively Whether the Authorized Sale of a Patented Product that Occurs Outside the United States Exhausts the Patentee's Right to Use Patent Law to Control Resale or Use of the Product.

In *Quanta Computer, Inc. v. LG Electronics, Inc.*, *supra*, this Court proclaimed a facially unconditional rule of patent exhaustion, holding that "[t]he authorized sale of an article that substantially embodies a patent exhaust the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." 533 U.S. at 638. Had this Court meant to exclude authorized sales that occur outside the United States from the sweep of this pronunciation, it presumably would have done so therein. In *Quanta* it did not, nor has this Court, in nearly 150 years of patent exhaustion jurisprudence, ever identified or hinted at a territorial limitation on the rule of patent exhaustion.

On proceedings following remand of the *Quanta* case, the United States District Court for the Northern District of California held that this Court's *Quanta* decision had eliminated any doubt concerning whether a territorial condition attaches to patent exhaustion, and had, *sub silentio*, disapproved the Federal Circuit's decision in *Jazz I* that only the authorized sale of a patented article which occurs inside the United States exhausts the patentee's rights under the patent laws. *LG Elecs., Inc. v. Hitachi Am. Ltd.*, *supra*, 655 F. Supp. 2d at 1046.

In this case, however, the Federal Circuit confirmed the district court's conclusion that the Federal Circuit's decision in *Jazz I*, *supra*, not having been *explicitly* overruled by this Court, remained controlling authority, Pet. App. 7a–9a, and compelled a finding that Fujifilm could enjoin Petitioners from repairing and reselling used cameras—and collect damages for patent infringement—unless Petitioners could prove that the cameras had been first sold under Fujifilm's authority *in the United States*.

The Federal Circuit's *Jazz I* decision, which holds that patent exhaustion is territorial, 264 F.3d at 1110, is predicated solely and completely on the Federal Circuit's interpretation of this Court's decision in *Boesch v. Graff*, 133 U.S. 697, 10 S. Ct. 378, 33 L. Ed. 787 (1890). However, as discussed herein, *Boesch* did not involve a sale of goods under authority of the patent owner; rather, it involved the sale of goods produced by a person *other* than the patent owner, who had been awarded "prior use" rights but not the right to sell patented goods. 133 U.S. at 701–02. *Boesch* does not address the question presented here: whether a foreign sale, authorized by the patentee, of an article that substantially embodies a patented invention, exhausts the patentee's right to use the patent laws to control subsequent resale, disposition, or use of the article sold.

This Court has addressed the issue of patent exhaustion in cases dating back nearly 160 years. It has *never* stated nor suggested a territorial limitation on the rule of patent exhaustion.

This Court first addressed patent exhaustion in *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539, 549,

14 L. Ed. 532 (1853), ruling that once a patented product "passes to the hands of the purchaser, it is no longer within the limits of the [patent] monopoly." Shortly thereafter, this Court reinforced that position, making clear that a patentee is entitled to "one royalty for a patented machine, and consequently when a patentee has himself constructed the machine and sold it . . . he has . . . ceased to have any interest whatever in the machine . . . ." *Bloomer v. Millinger*, 68 U.S. (1 Wall.) 340, 350, 17 L. Ed. 581 (1864). In *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 456, 21 L. Ed. 700 (1873), the Court extended the notion of an authorized patent-exhausting sale to include those made by licensees, holding that "in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use."

Far from imposing or inferring any territorial limit on patent exhaustion, this Court, in *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 666, 15 S. Ct. 738, 39 L. Ed. 848 (1895), held that purchasers of patented products from authorized sellers have "an absolute property [right] in such articles, *unrestricted in time or place*" (emphasis added).

Boesch, *supra*, does not establish a contrary rule. In *Boesch*, the plaintiff held patents for the same invention in both the United States and Germany. 133 U.S. at 698–99. The defendants purchased a patented device in Germany from a person *other than* the patentee: a person who had a "prior-use right" under German law to practice the patent because he "had made preparations to manufacture

the [device] prior to the application for the German patent." *Id.* at 701. But this prior-use right did not authorize the person *to sell* goods that embodied the patented invention. This Court held that because the foreign purchase was made "*without the license or consent of the owners of the United States patent*", the defendants were not permitted to sell the invention in the United States. *Id.* at 702 (emphasis added). The key difference between *Boesch* and the instant case, however, is that the sale in *Boesch* was not made by the patent owner or one of its licensees, and the patent owner had received no compensation for its patent rights. In this case, by contrast, it is undisputed that the "first sale" of all of the accused cameras had been by Fujifilm or under its authority, and that Fujifilm had received compensation for every camera sold.

This Court next considered the patent exhaustion doctrine in *United States v. Univis Lens Co.*, 316 U.S. 241, 62 S. Ct. 1088, 86 L. Ed. 1408 (1942), reaffirming that the sale of an article that embodies the patented invention exhausts the patent owner's right to use the patent law to control the subsequent disposition of the good:

> The patentee may surrender his monopoly in whole by the sale of his patent or in part by the sale of an article embodying the invention. His monopoly remains so long as he retains the ownership of the patented article. *But sale of it exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent,*

> *control the use or disposition of the article.*

Id. at 250 (emphasis added) (citing *McQuewan*, 55 U.S. at 549–50).

Thus, through the end of the twentieth century, this Court had never placed any territorial restriction on patent exhaustion by reason of an authorized "first sale" of an article substantially embodying the patented invention, and had never allowed a patentee to use the patent laws to exact compensation more than once for its invention.

As this century dawned, however, the Federal Circuit, in *Jazz I*, proclaimed—for the first time—that a patentee's rights are exhausted by the sale of an article embodying the patented invention *only* when that authorized sale occurs *within* the United States.[6] 264 F.3d at 1110 Ruling *sua sponte* on a point that none of the parties had raised or briefed, the Federal Circuit, relying solely on *Boesch*, held that a patentee's rights were not exhausted by an authorized sale of patented goods, if such sale occurred outside the United States, stating:

> To invoke the protection of the first sale doctrine, the authorized first sale must

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[6] *Jazz I* involved an appeal from a U.S. International Trade Commission determination in an "unfair import practices" investigation under section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337 (2004). 264 F.3d at 1098. While Section 337 proceedings are often directed at imported goods claimed to infringe United States patents, they are conducted by an administrative law judge (ALJ), are not before a jury, do not involve the same rules of evidence that apply in litigation under the patent laws, and do not allow for the award of damages to a patentee.

> have occurred under the United States patent. *See Boesch*, [133 U.S. at 701–03] (a lawful foreign purchase does not obviate the need for license from the United States patentee before importation into and sale in the United States.) Our decision applies only to LFFPs for which the United States patent right has been exhausted by first sale in the United States. Imported LFFPs of solely foreign provenance are not immunized from infringement of United States patents by the nature of their refurbishment.

Id. at 1105.

Quanta—this Court's first opinion following *Jazz I* regarding the patent exhaustion doctrine—did not embrace the Federal Circuit's notion that patent exhaustion was territorially circumscribed. In *Quanta*, the patent holder licensed Intel Corp. to manufacture and sell semiconductor chips that embodied patented inventions. 553 U.S. at 623. The patentee expressly claimed that its grant of a license to Intel to make the chips did not extend to producers of downstream articles (computers, electronic appliances) which might incorporate the chips. *Id.* at 623–24. Holding the attempted restriction ineffective, this Court reiterated a facially clear rule of exhaustion: the "authorized sale" of an article that "substantially embodies" a patented invention exhausts the patentee's right to use the patent law to control the postsale use of the article. *Id.* at 638. This Court did not pronounce any territorial restrictions on this exhaustion rule.

While this Court has never stated or implied a territorial restriction to the rule of patent exhaustion, the judgment against Petitioners in this case is predicated *solely* on the Federal Circuit's holding that such a restriction exists. Although this Court's *Quanta* decision indicates that exhaustion requires only (i) an authorized sale of (ii) an article that substantially embodies the patented invention, the Federal Circuit has injected a third requirement, namely that (iii) the authorized sale must occur in the United States. This Court should grant the Petition so that it can make an express and unequivocal declaration on the question of whether patent rights are exhausted by authorized sales of patented goods that occur abroad, and to resolve the evident conflict in the lower courts.

Following remand of *Quanta,* judgment was entered against the patentee in that case with respect to goods sold abroad. See *LG Elecs.*, *supra*, 655 F. Supp. 2d at 1048. In the present case, the opposite decision was reached, and Petitioners have been held liable for millions of dollars in patent infringement damages for having resold cameras that, admittedly, had been the subject of authorized first sales by Fujifilm, the patentee. This Court should grant certiorari in this case to resolve the conflict in the lower courts.

This case presents an ideal platform for addressing this issue; it is established that the foreign sales were of patented products and that they were authorized by Fujifilm. Petitioners were found to have infringed Fujifilm's patents *solely*

because they could not prove the location where the cameras it purchased had been first sold.[7]

B. *Boesch v. Graff* Does Not Support the Notion that Exhaustion of Patent Rights is Territorially Circumscribed.

The only decision of this Court ever cited for the proposition that patent exhaustion is territorially circumscribed is *Boesch v. Graff*. This case was the sole basis on which the Federal Circuit's *Jazz I* holding rests, and the sole basis for the Federal Circuit's affirmation of the judgment against Petitioners in this case.

Boesch is inapposite, however, for it did not involve a sale by, or "authorized by," the owner of the United States patent. *Boesch* cannot control a case such as this one, where it is undisputed that Fujifilm, the patentee, authorized the first sale of every one of the cameras at bar, and reaped compensation for its patent rights in such sales.

In *Boesch*, the plaintiff owned United States and German patents covering certain lamp parts. 133 U.S. 698–99. Under German law, however, a non-patentee third party in Germany had a prior-use right[8] providing that "the patent does not affect persons who, at the time of the patentee's

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[7] Indeed, the issue is so clearly framed in this case that the business community would likely view a denial of certiorari as a statement by this Court that a territorial limit on patent exhaustion exists.

[8] A prior-use right represents "the right of a first inventor to continue using an invention after someone else patented it . . . ; it protects first inventors in most countries from the harsh effects of a first-to-file system." *Black's Law Dictionary* 101 (8th ed. 2004).

application, have already commenced to make use of the invention in the country, or made the preparations requisite for such use." *Id.* at 701. The defendants in *Boesch* purchased lamp parts from the third party and imported them into the United States. *Id.* at 702. This Court held that the third party, having only a prior-use right, was *not authorized* by the U.S. patentee; and therefore, upon importation, the sale was "without the license or consent of the owners of the United States patent." *Ibid.*

Boesch clearly cannot support the decision in this case, where Fujifilm had authorized the first sale of each accused camera and been compensated therefor. Under this Court's *Quanta* rule, the "authorized sale" of the cameras at bar should have terminated Fujifilm's right to use the patent laws to restrict the subsequent purchase, repair and sale of the cameras by Petitioners.

Whether this Court's 2008 *Quanta* decision eliminated territoriality as a condition of patent exhaustion is a matter of dispute. But commentators and case law on both sides of the debate agree that this Court's *Boesch* decision does not support a finding that exhaustion is territorial. On remand in *Quanta,* the district court characterized the *Boesch* holding as follows:

> [T]he unauthorized foreign sale of the device [in *Boesch*] did not exhaust the United States patent holder's rights to enforce the patent with respect to sales in the United States. The present sale, in contrast, involves an *authorized* sale made pursuant to a license under a

> United States patent. *Boesch* does not speak to this issue.

LG Elecs., *supra*, 655 F. Supp. 2d at 1047 (emphasis in original); *see also Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 615 F. Supp. 2d 575 (E.D. Ky. 2009) (questioning the continued viability of *Jazz I* following this Court's decision in *Quanta*).

One commentator who believes that *Quanta* did not address the "foreign exhaustion" issue nonetheless concurs that *Boesch* does not support the rule of territoriality that the Federal Circuit imposed against Petitioners in this case:

> *Boesch* has nothing to do with patent exhaustion because there was no patent right, German or otherwise, that was exercised. *Boesch* dealt with the right of a party to import and sell in the United States a patent-protected stove from Germany where the manufacturer of the German stove was *exempt* from patent infringement under German law due to the operation of a prior user right statute.

Harold C. Wegner, *Post-Quanta, Post-Sale Patentee Controls*, 7 J. Marshall Rev. Intell. Prop. L. 682, 698 (2008) (emphasis in original) (footnotes omitted). The same commentator has suggested that:

> The Supreme Court has never ruled on international patent exhaustion. *Boesch v. Graff* is incorrectly cited as

> having dealt with international exhaustion. Rather, *Boesch v. Graff* had nothing at all to do with an authorized sale by the patent owner but was a case dealing with prior user rights.

Wegner, *International Patent Exhaustion*, *supra*, at 2. These and other commentaries suggest not only that the issue presented in the instant Petition should be taken under consideration by this Court, but also the very real possibility that the judgment against Petitioners was wrongly entered and wrongly upheld.

This Court should grant certiorari in this case not only to clarify the scope of the patent exhaustion rule, but also to make clear that its holding in *Boesch v. Graff* does not impose territorial limitations on patent exhaustion in cases where the first sale of an article abroad is authorized by the United States patentee.

C. Clarifying the Extent of the Limited Monopoly Granted by the Patent Law Is a Matter of Exceptional Importance to Patent Rights Owners and Purchasers Alike.

The question for which Petitioners seek a writ of certiorari goes to the very scope of the limited monopoly granted under the patent laws. It is of exceptional importance not only to the business community, but also to the Federal Government, which is engaged in ongoing international negotiations regarding intellectual property rights protection. *See* Wegner, *International Patent*

Exhaustion, *supra*, at 3 ("Whatever decision on international patent exhaustion that the Supreme Court will ultimately reach, there will be global implications as the United States during the negotiations leading up to the Marrakesh Agreement establishing the World Trade Organization and the "TRIPS"—the Trade Related Aspects of Intellectual Property—took a strong stance *against* international exhaustion. The topic remains one of great global interest." (emphasis in original)).

Patentees require clear guidance concerning the scope of the patent exhaustion doctrine so they can determine when they can control the disposition of patented goods using the patent laws, or when they must contract around exhaustion rules.[9] Licensees also need clarity concerning the extent of rights granted under the patent law. A licensee granted unrestricted rights to practice a patent "globally" is in fact restricted if the patentee can use a territorially-limited exhaustion doctrine to exclude licensee-made goods from the United States. For instance, a patent owner, such as Fujifilm, might grant patent global licenses to competitors (such as Fujifilm granted to Eastman Kodak Co. and Konica Minolta in this case), reap royalties from the licensees' foreign sales of patented goods, then invoke the patent laws to prevent the licensees' customers from importing licensed goods or selling them in the United States. A patent owner could

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[9] *See* 6 Donald S. Chisum, *Chisum on Patents: A Treatise on the Law of Patentability, Validity, and Infringement* § 19.04(3)(h) (2008) ("It is generally assumed that a patent owner may assign or license the right to practice the invention on a territorially restricted basis."). Obviously, no contractual restrictions would be necessary if the territorial restriction is statutory.

enforce its rights selectively, restraining imports of licensee-made goods, while allowing imports of its own goods.

A patentee, seeing its goods on the shelves of a major retail such as Target or Wal-Mart, could sue the retailer for infringement, challenging the retailer to prove the location where the goods were "first sold," or to compensate the patentee a second time. Since "first sale" is an affirmative defense, *see Jazz II, supra*, 439 F.3d at 1350 , retailers could be forced to defend repeated patent infringement suits, and to pay royalties to the extent they cannot adequately prove the location where the goods underwent their first authorized sale[10]. Fujifilm achieved the same result in the instant case, not by suing the retailers directly, but by suing Jazz Products, the retailers' supplier. A patentee could use a territorially-limited rule of exhaustion to challenge the sale of used goods on outlets such as eBay or Craigslist, forcing the sellers (who in most cases purchased the goods at retail) to prove the location where the authorized "first sale" occurred. Patentees could likewise thwart the environmentally-sound recycling of spent goods and materials, even in cases of "permissible repair," as Fujifilm has done in this case, with the Federal Circuit's blessing.

This Court has never countenanced such absolute market control by owners of intellectual property rights. Thus, this Court has ruled that trademark rights may not be invoked to prevent the importation

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[10] Moreover, as in the instant case, courts might hold that the "royalty base" against which infringement damages are calculated includes not only goods for which a domestic "first sale" cannot be proven, but also patent-exhausted goods commingled therewith.

of "gray market" goods in cases where the United States and foreign trademark owners were the same person, or under common ownership and control, such that the trademark owner can be said to have been compensated, directly or indirectly by the first sale of the good bearing the mark. *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 108 S. Ct. 1811, 100 L. Ed. 313 (1988). This Court has also granted certiorari in the present Term to a case which poses the question of whether United States copyrights can be exhausted by the authorized foreign sale of a copyrighted work. *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008), *cert. granted*, 78 U.S.L.W. 3610 (U.S. Apr. 19, 2010) (No. 08-1423). The question of whether the authorized foreign sale of a product that substantially embodies a patented invention terminates the patent owner's right to use patent laws to control resale, importation or disposition of patented goods is of at least equal importance.

At the same time, patentees could abuse the patent monopoly to restrict secondary market sales of patented goods unfairly, and to enrich themselves repeatedly at the expense of consumers. Such abuse of the patent monopoly is expressly permitted—and richly rewarded—by the Federal Circuit's decision in this case.

1. *Quanta* enunciates a clear, two-part test for a first-sale patent exhaustion doctrine that creates orderly markets.

This Court's *Quanta* decision sets out a clear, unconditional rule of patent exhaustion, holding that "[t]he authorized sale of an article that substantially

embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." 533 U.S. at 638. This statement embodies the longstanding rule that the authorized sale of a patented article moves the article sold beyond the reach of patent law protection and protects the purchaser against the threat that the patentee will interfere in its downstream commercial activities. The rule protects a purchaser's property rights in goods purchased unconditionally. For example, double royalties are disallowed when any royalty has been paid on any patented component that substantially embodies the patented invention. *Univis Lens*, *supra*, 316 U.S. at 251–52.

But if territoriality is made a third requirement for patent exhaustion, all purveyors of used or resold products are subject to potential harassment by patentees. The owner or purchaser can be prevented from disposing of its property by being forced to prove where the patent-exhausting "first sale" took place—a task easier said than done. The two-part exhaustion test of *Quanta* protects purchasers from such uncertainty. The three-part test set out by the Federal Circuit in *Jazz I* injects such uncertainty into almost all commercial dealings, forcing purchasers of goods that were admittedly the subject of a sale authorized by the patentee to prove—if they can—where the first authorized sale occurred, under penalty of injunction and damages.

Injecting territoriality as a condition of patent exhaustion, and tasking the purchaser with proving it, however, greatly expands the scope of the patent monopoly and creates perverse motives for patentees to seek double (or multiple) compensation for their

patent rights, or to enjoin resale or other disposition of patented goods for which they have already received compensation. This Court has frowned on patentees seeking double or multiple compensation for patent rights inhering in a good. *See* Robert W. Morris, *"Another Pound of Flesh": Is There a Conflict Between the Patent Exhaustion Doctrine and Licensing Agreements?*, 47 Rutgers L. Rev. 1557, 1595 (1995)

Authorization is paramount to the rule of patent exhaustion because it ensures that just compensation flows to the patentee, and the consumer of the patented article may freely use or resell the product once the patentee has been compensated. *See e.g.*, *Keeler*, *supra*, 157 U.S. at 666 (1895) ("[A]s between the owner of a patent on the one side, and a purchaser of an article made under the patent on the other, the payment of a royalty once, or, what is the same thing, the purchase of the article from one authorized by the patentee to sell it, emancipates such article from any further subjection to the patent throughout the entire life of the patent, . . . and that in respect of the time of enjoyment, by those decisions the right of the purchaser, his assigns or legal representatives, is clearly established to be entirely free from any further claim of the patentee or any assignee."); *Intel Corp. v. ULSI Sys. Tech., Inc.*, 995 F.2d 1566, 1568 (Fed. Cir. 1993) ("The law is well settled that an authorized sale of a patented product places that product beyond the reach of the patent. The patent owner's rights with respect to the product end with its sale, and a purchaser of such a product may use or resell the product free of the patent." (citing *Millinger*, *supra*, 68 U.S. at 350–51; *Univis Lens*,

supra, 316 U.S. at 250, 252)). If a patentee does not wish to convey to a purchaser an unrestricted right to use or resell the good, that patentee has complete freedom to control the good using contract law, for example by granting a limited license to practice a patent, or to use or to resell a patented good.

2. Justice Breyer's "bicycle" hypothetical from *Quanta* illustrates the Court's reluctance to give patentees more power.

During oral argument of the *Quanta* case, Justice Breyer posited a hypothetical question that illustrates the need for a clear line of demarcation for patent exhaustion. Justice Breyer directed to counsel:

> Imagine that I want to buy some bicycle pedals, so I go to the bicycle shop. These are fabulous pedals. The inventor has licensed somebody to make them, and he sold them to the shop . . . . I go buy the pedals. I put it in my bicycle. I start pedaling down the road.
>
> *Now, we don't want 19 patent inspectors chasing me* . . . .
>
> . . . [W]hy can't I look at this as saying that patent is exhausted, the patent on the pedals and the patent for those bicycles insofar as that patent for the bicycles says I have a patent on inserting the pedal into a bicycle.

Tr. of Oral Arg. 29–30, *Quanta*, *supra*, 553 U.S. 617 (No. 06-937), 2008 U.S. Trans. LEXIS 12, at *27

(emphasis added). Justice Breyer's hypothetical highlights the need for clarity, and the need for a consumer to know when he or she owns an article outright. The threat of an infringement lawsuit from an already-compensated patentee may be enough to dissuade an entrepreneurially-driven business person from entering a market, for fear of harassing suits by patentees. This is precisely what happened in the instant case, where a large and powerful patentee, Fujifilm, despite admittedly authorizing the initial sale of the cameras at bar, and having been compensated for such sales, used the patent laws to drive the smaller, entrepreneurial Jazz Products into bankruptcy by securing a multimillion-dollar patent infringement judgment against it.

3. Patentees have exclusive control over selling and pricing schemes and solely control whom they authorize to purchase their patented articles.

The Constitution makes clear that Congress has the power to award limited monopoly opportunities to inventors with the aim of promoting innovation. U.S. Const. art. I, § 8, cl. 8. To garner this intended benefit, "the proper goal of intellectual property law is to give as little protection as possible consistent with encouraging innovation." Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 Tex. L. Rev. 1031, 1031 (2005). Supreme Court decisions have steadily acted in conformity with these traditional notions of the goals of patent laws. *See, e.g.*, *Keeler*, 157 U.S. at 666–67 (concluding that patent exhaustion "does not deprive a patentee of his

just rights, because no article can be unfettered from the claim of his monopoly without paying its tribute"); *Adams*, *supra*, 84 U.S. at 456 ("[T]he patentee . . . having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction . . . ."); *Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544, 547, 21 L. Ed. 322 (1873) ("[W]hen . . . the consideration has been paid to him for the thing patented, the rule as well established that the patentee must be understood to have parted . . . with all his exclusive right . . . .").

United States v. Masonite Corp., 316 U.S. 265, 62 S. Ct. 1070, 86 L. Ed. 1461 (1942), highlights these goals by essentially asking "whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article." *Id.* at 278; *see Bauer & Cie v. O'Donnell*, 229 U.S. 1, 16, 33 S. Ct. 616, 57 L. Ed. 104 (1913) (using patent exhaustion on articles "previously bought, at a price which must be deemed to have been satisfactory"). Patentees have absolute discretion concerning how they wish to dispose of their goods. Patentees can sell patent rights or patented goods outright, or they can license the patents, using contract law to impose such restrictions on the resale, disposition, or use of goods as the patentees wish. In the instant case, Fujifilm elected both to manufacture and to sell patented goods, and to license others to do so, on a global scale, without restriction. Fujifilm imposed no limitations, territorial or otherwise, on the subsequent resale, disposition, or use of the goods so sold and licensed. They should not be able to use the

patent laws against subsequent purchasers to reclaim patent rights over goods in which those rights have been exhausted. Petitioners have found no cases in which this Court has countenanced such reclamation of patent rights. But that is the effect of the Federal Circuit's decision in this case.

A clear doctrine of patent exhaustion is needed to limit servitudes running with personal property, for "[w]ithout exhaustion, patentees could reserve exclusive rights under the patent laws in each patented article sold." Andrew T. Dufresne, *The Exhaustion Doctrine Revived? Assessing the Scope and Possible Effects of the Supreme Court's* Quanta *Decision*, 24 Berkeley Tech. L.J. 11, 14 (2009). Though the "blanket prohibition against servitudes has receded as to real property" it remains strong in the context of personal property so as to prevent "*de facto* servitudes," binding all subsequent owners in downstream commerce. *Ibid.* A clear patent exhaustion doctrine is necessary to counterbalance what would otherwise be indefinite burdens on personal property.

CONCLUSION

A clear enunciation of the scope of the patent exhaustion doctrine being of critical importance to patentees, licensees, and purchasers alike, this Court should grant the petition for a writ of certiorari to the Court of Appeals for the Federal Circuit in order to resolve the question of whether patent exhaustion attaches only where an authorized sale of a patented article occurs in the United States.

Respectfully submitted,

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October 8, 2010

APPENDIX

United States Court of Appeals for the Federal Circuit

FUJIFILM CORPORATION,
Plaintiff-Appellee,

v.

JACK C. BENUN,
Defendant-Appellant,

AND

JAZZ PRODUCTS LLC,
POLYTECH ENTERPRISES LTD., AND
POLYTECH (SHENZHEN) CAMERA CO. LTD.,
Defendants-Appellants.

2009-1487

Appeal from the United States District Court for the District of New Jersey in case no. 2:05-CV-1863, Judge Katharine S. Hayden.

Decided: May 27, 2010

LAWRENCE ROSENTHAL, Stroock & Stroock & Lavan LLP, of New York, New York, argued for plaintiff-appellee. With him on the brief were MATTHEW W. SIEGAL, and ANGIE M. HANKINS.

JOHN M. PETERSON, Neville Peterson LLP, of New York, New York, argued for defendants-appellants. With him on the brief were GEORGE W. THOMPSON, and MICHAEL T. CONE. Of counsel on the brief was JERRY P. WISKIN, Simons & Wiskin, of South Amboy, New Jersey.

Before MICHEL, *Chief Judge*, MAYER, and LINN, *Circuit Judges*.

PER CURIAM.

Jack C. Benun (Benun), Jazz Products LLC (Jazz), Polytech Enterprise Ltd. (PE) and Polytech (Shenzhen) Camera Co. (PC) (collectively, defendants) appeal the judgment of the United States District Court for the District of New Jersey finding that defendants infringed patents owned by Fujifilm Corporation (Fuji). *Fujifilm Corp. v. Benun*, No. 2:05cv1863 (D.N.J. July 22, 2009) (Final Order and Judgment). We affirm.

BACKGROUND

This appeal concerns single-use cameras, or lens-fitted film packages (LFFPs). Fuji participates in the LFFP market and owns U.S. patents directed to LFFPs. Once a LFFP is used by a consumer it is taken to a film processor who opens the LFFP and processes the film. The film processor does not return the empty LFFP (shell) to the consumer. Jazz bought used LFFPs, refurbished them, and sold them as new.

This is the sixth appeal from decisions finding liability for infringing Fuji's LFFP patents by Benun and companies under his control. The case that is

the subject of this appeal began in 2005 when Fuji sued Benun, Jazz, PE, and PC. Jazz is Benun's new company, initially formed as Ribi Tech Products LLC, after the Bankruptcy Court for the District of New Jersey shut down Jazz Photo Corp. PE supplied Jazz with LFFPs that were refurbished by PE's subsidiary, PC. PC operated a factory in China where the LFFPs were refurbished. On April 4, 2005, Jazz purchased Jazz Photo Corp.'s inventory of about 1.4 million LFFPs made by PE and PC (collectively, Polytech), essentially continuing the LFFP business where Jazz Photo Corp. left off after being shut down by the bankruptcy court.

On June 6, 2005, the district court's first preliminary injunction enjoined the defendants from infringing and inducing others to infringe, and ordered Jazz to maintain an inventory of LFFPs until the parties reached a sampling agreement. On June 15, 2005, the district court's second preliminary injunction enjoined defendants from selling in or to the United States: LFFPs not made from shells first sold in the United States by Fuji or its licensees; and LFFPs not having a back cover that replaces the full back cover sold with the original LFFP. We affirmed the court's second injunction in *Fuji Photo Film Co., Ltd. v. Benun*, 463 F.3d 1252 (Fed. Cir. 2006).

The 1.4 million LFFPs Jazz purchased were detained due to International Trade Commission (ITC) orders prohibiting importation of LFFPs that infringe Fuji's patents. Based on the ITC orders, Jazz exported most of the detained LFFPs. From October 2005 to January 2006, however, PE sold almost a million of these previously detained LFFPs back to Jazz in the United States. These re-imported LFFPs were released by Customs based on an October 14, 2005, letter from defendants' counsel.

Fuji discovered the re-importation in March 2006, while deposing Benun for this case.

On October 10, 2006, Fuji filed a contempt motion based on Jazz's re-importation. On December 5, 2006, the district court found defendants in contempt of the preliminary injunction based on clear and convincing evidence that the re-imported LFFPs were infringing as determined by the sampling process. The court later awarded Fuji $117,486 in attorneys fees based on the contempt citation. Defendants' appeal to this court was dismissed for lack of jurisdiction. *Fuji Photo Film Co. v. Benun*, 240 Fed. App'x 862 (Fed. Cir. 2007).

In this case, Fuji moved for partial summary judgment of infringement on all but certain LFFPs made by refurbishing Achiever-brand LFFPs. Defendants moved for summary judgment that (1) Fuji had already recovered damages from the Jazz Photo Corp. bankruptcy, (2) this action was mooted by Fuji's settlement of bankruptcy claims against Jazz Photo Corp., (3) the bankruptcy sale of Jazz Photo Corp.'s inventory to Jazz was a patent exhausting first sale, and (4) the LFFPs were permissibly repaired. On June 30, 2008, the district court granted Fuji's motion for partial summary judgment of infringement, and denied defendants' motions.

On March 16, 2009, defendants moved *in limine* to bar reference to prior litigations and administrative actions, and to collaterally estop Fuji from litigating whether defendants had met the process requirement for permissible repair. On April 6, 2009, the court ordered each side to attend a pretrial conference that would include "a specific offer of proof as to each side." Defendants were tasked to show how they would prove less than 40% of Polytech's LFFPs made through December 13,

2003, were made from foreign shells, and consequently infringed Fuji's patents. Fuji was tasked to show how it would prove that defendants' LFFPs were reconstructed as opposed to permissibly repaired.

The court found both offers insufficient. Therefore, defendants were precluded from arguing that more than 60% of their LFFPs were refurbished from LFFP shells sold in the United States for the period prior to December 12, 2003. Fuji was similarly precluded from arguing reconstruction for the entire time period at issue.

A jury trial ensued. At the close of Fuji's case, defendants moved for judgment as a matter of law (JMOL) under Fed. R. Civ. P. 50(a) on Fuji's infringement claim based on defendants refurbishing Achiever-brand LFFPs. Defendants' JMOL motion, which contained no other issues, was denied. The jury found willful infringement of Fuji's patents and awarded a $2.00 per infringing LFFP running royalty, resulting in a verdict, including interest, of $16,191,406 against PE, of which Benun and Jazz are jointly and severally liable for $3,690,239; and an additional $2,500,000 lump sum royalty payment. The court denied defendants' post-trial motion for JMOL under Fed. R. Civ. P. 50(b) based on non-infringement by Achiever-brand LFFPs and inapplicability of a first sale's location, and its motion for a new trial on damages.

DISCUSSION

For nonpatent issues we apply the law of the circuit in which the district court sits. *In re Cambridge Biotech*, 186 F.3d 1356, 1368 (Fed. Cir. 1999). In this case, Third Circuit law governs procedures for preserving issues for appeal and

denial of motions for JMOL or a new trial. *Voda v. Cordis Corp.*, 536 F.3d 1311, 1318 (Fed. Cir. 2008). Under Third Circuit law we have plenary review over a district court's rulings on motions for JMOL, apply-ing the same standards as the district court. *Gagliardo v. Connaught Labs., Inc.*, 311 F.3d 565, 568 (3d Cir. 2002). We review for an abuse of discretion the district court's decision on whether to grant a new trial based on the verdict being against the weight of the evidence. *Greenleaf v. Garlock, Inc.*, 174 F.3d 352, 365-66 (3d Cir. 1999). In the Third Circuit, a district court has abused its discretion if its determinations are based on an erroneous view of the law or on a clearly erroneous assessment of the evidence. *Simmerman v. Corino*, 27 F.3d 58, 62 (3d Cir. 1994).

For issues of substantive patent law and procedural issues pertinent to patent law, we apply our own law. *Cambridge Biotech*, 186 F.3d at 1368. Accordingly, we apply Federal Circuit law in reviewing, for an abuse of discretion, a district court's finding of contempt of an injunction by infringement. *Int'l Rectifier Corp. v. Sam-sung Elecs. Co.*, 361 F.3d 1355, 1359 (Fed. Cir. 2004).

I.

Defendants present four issues for review: (1) whether *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. , 128 S. Ct. 2109 (2008), eliminated the territoriality requirement for patent exhaustion announced in *Jazz Photo Corp. v. United States International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001) (*Quanta* argument); (2) whether the court invoked non-mutual collateral estoppel and precluded Polytech from presenting its permissible repair and first sale defenses on the basis of court

proceedings to which Polytech was not a party (estoppel argument); (3) was a new trial on damages warranted by the jury's $2.00 per infringing LFFP running royalty and $2.5 million lump sum award (new trial argument); and (4) whether the court properly held defendants in contempt of a preliminary order enjoining importation of infringing LFFPs (contempt argument). First, we consider whether issues (1) and (2) are waived.

Regarding defendants' *Quanta* argument, defendants can only appeal issues presented to the jury that were included in an earlier motion for JMOL under Fed. R. Civ. P. 50(a), and properly renewed in a Fed. R. Civ. P. 50(b) post-trial motion. *Lightning Lube, Inc. v. Witco Corp.*, 4 F.3d 1153, 1172-73 (3d Cir. 1993). Fuji, however, did not raise a timely objection to Jazz's 50(b) motion arguments, including the *Quanta* argument, that were not present in its 50(a) motion. *Chainey v. Street*, 523 F.3d 200, 218 (3d Cir. 2008). Fuji's argument that defendants waived their *Quanta* argument by consenting to the jury instructions fails for similar reasons. Accordingly, defendants' *Quanta* argument is properly before this court.

Defendants' estoppel argument was not raised in defendants' 50(a) or 50(b) motions, and their failure to raise the argument in either motion precluded Fuji's objection because it lacked notice that the argument was maintained beyond the pre-trial motions. Fuji timely asserts waiver, and defendants' estoppel argument is waived.

II.

Quanta Computer, Inc. v. LG Electronics, Inc. did not eliminate the first sale rule's territoriality requirement. Three LG patents, relating to systems

in which a micro-processor writes or reads memory unit data, were at issue in *Quanta*. LG licensed Intel to make, use, or sell combination products practicing these patents, but restricted Intel from passing a license on to Intel customers to make the patented combination by joining Intel's unpatented chips with components from a non-Intel source. *Quanta Computer, Inc.*, 553 U.S. at ___, 128 S. Ct. at 2114. The license also stated that patent exhaustion applied when Intel sold its LG-licensed products. *Id.* In a second agreement, Intel agreed to provide written notice to its customers that Intel's LG license did not extend to any subsequent purchaser's product made by combining an Intel product with any non-Intel product. *Id.*

Intel sold chips to Quanta without hardware to connect them in a working computer; it also provided Quanta with the required written notice. *Id.* LG's patents were not infringed until the chips were assembled with hard-ware, but the only reasonable and intended use for the chips was practicing LG's patents. *Id.* at 2119. Quanta combined Intel's chips with non-Intel hardware so that LG's patents were practiced. *Id.* The Supreme Court resolved whether Intel selling chips to Quanta exhausted LG's patent rights in the chip-using system. *Id.* at 2122. Holding the case governed by *United States v. Univis Lens Co.*, 316 U.S. 241 (1942) (exhaustion occurs when the only reasonable and intended use of the products sold is to complete the patented combination), the Court found that Intel's chips substantially embodied the patented invention and their unconditional, authorized sale by Intel thereby exhausted LG's patents. *Quanta Computer, Inc.*, 553 U.S. at ___, 128 S. Ct. at 2122.

Defendants assert that *Quanta* created a rule of "strict exhaustion," that the Court's failure to recite

the territoriality requirement eliminated it. That case, however, did not involve foreign sales. Defendants rely on *Quanta's* footnote 6 because it contains the phrase "[w]hether outside the country."* This phrase, however, emphasizes that *Univis* required the product's only use be for practicing–not infringing–the patent; and a practicing use may be "outside the country," while an infringing use must occur in the country where the patent is enforceable. Read properly, the phrase defendants rely on supports, rather than undermines, the exhaustion doctrine's territoriality requirement.

III.

We also consider defendants' new trial argument that the $2.00 per infringing LFFP running royalty and the $2.5 million lump sum, are excessive, punitive, and un-supported by substantial evidence. Under 35 U.S.C. § 284, Fuji was entitled to "damages adequate to compensate for the infringement, but in no event less than a reasonable royalty." To determine a reasonable royalty, a jury must find the royalty that would have been agreed to in a hypothetical negotiation between a willing licensee and willing licensors at the time infringement began. *Rite-Hite Corp. v. Kelley Co.*,

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* LGE suggests that the Intel Products would not infringe its patents if they were sold overseas, used as replacement parts, or engineered so that use with non-Intel products would disable their patented features. But *Univis* teaches that the question is whether the product is 'capable of use only in *practicing* the patent,' not whether those uses are infringing. Whether outside the country or functioning as replacement parts, the Intel Products would still be *practicing* the patent, even if not infringing it." *Quanta Computer, Inc.*, 553 U.S. at __, 128 S. Ct. at 2119 n.6 (citations omitted) (emphasis in original).

56 F.3d 1538, 1554 (Fed. Cir. 1995) (*en banc*). The jury's award should stand unless it is grossly excessive, not supported by evidence, or based on only speculation or guesswork. *Oiness v. Walgreen Co.*, 88 F.3d 1025, 1031 (Fed. Cir. 1996).

Fuji presented testimony that in a hypothetical negotiation it would have enjoyed a strong bargaining position based on (1) defendants' entire business depending on a Fuji license; (2) Customs excluding infringing LFFPs; and (3) defendants' demonstrated inability to segregate infringing LFFPs from non-infringing LFFPs. Relying on these and other factors from *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970), Fuji's expert testified that the parties would have agreed to a 40 cent royalty rate. Based on defendants' inability to separate the LFFPs, the expert testified at length about *Georgia-Pacific* factor 6 (collateral sales) and included both infringing and non-infringing LFFPs in the royalty base. In support of its all-product royalty base, Fuji presented the method as an accepted technique to avoid repeated disputes over what percentage of LFFPs infringe, a point of contention between Fuji and defendants.

Critically, Fuji's expert testified that in a hypothetical negotiation the royalty rate would have changed inversely to royalty-base changes, resulting in a consistent royalty amount. Specifically, if 50% of LFFPs infringed, and the royalty base only included infringing LFFPs (a reduction by one-half in the size of the potential royalty base of all LFFPs), then the royalty rate would double from 40 cents to 80 cents per infringing LFFP. In short, Fuji advocated a consistent royalty amount that would not vary with changes in the royalty-base size. To that end, Fuji's expert provided the jury with

sufficient information to reach Fuji's proposed royalty amount, whether the royalty base included all LFFPs (a larger royalty base, driving the royalty rate down to reach Fuji's proposed royalty amount), or only infringing LFFPs (a smaller royalty base, driving the royalty rate up to reach Fuji's proposed royalty amount). By increasing the royalty rate in an amount proportionate to any reduction in the size of the royalty base, the jury could have reached a $2.21 royalty rate for application to a royalty base including only in-fringing LFFPs.** $2.21 is even larger than the $2.00 per infringing LFFP royalty the jury awarded.

Defendants seize on the 40 cent royalty rate and argue that the royalty base for the proposed royalty rate can only include infringing LFFPs, thereby making the jury's $2.00 royalty rate excessive. This argument fails because the jury was entitled to rely on evidence of bundling and convoyed sales in determining the proper scope of the royalty base. *Deere & Co. v. Int'l Harvester Co.*, 710 F.2d 1551, 1559 (Fed. Cir. 1983). "The fact that bundling and convoyed sales affected [Fuji's] estimate of both the royalty base and the royalty rate is thus not a sufficient reason to nullify the jury's award." *Interactive Pictures v. Infinite Pictures*, 274 F.3d 1371, 1385 (Fed. Cir. 2001). Because defendants apply similar logic in their assertion that the $2.5 million lump sum is excessive, these arguments also are unconvincing.

IV.

Finally, defendants challenge whether the court properly held them in contempt of a preliminary

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** 0.40 per LFFP ÷ (4,600,000 LFFPs ÷ 25,400,000 LFFPs)) = $2.21

order enjoining importation of infringing LFFPs. They do not dispute the existence of a valid court order, or their knowledge of that order. Instead, they argue that contempt was not supported by sufficient evidence of infringement, the imported cameras were redesigned, and Fuji's patent rights were terminated during the bankruptcy sale. We need not reach defendants' third argument; it was waived by their failure to raise it in either the 50(a) or 50(b) motion.

Defendants' remaining arguments are unconvincing. The district court correctly relied on three fact witness reports and a statistical expert to show that imported LFFPs included shells that were not first sold in the United States, and not redesigned. Therefore, the court did not abuse its discretion in finding contempt of the preliminary injunction.

CONCLUSION

Accordingly, the judgment of the United States District Court for the District of New Jersey is affirmed.

AFFIRMED

United States District Court
District of New Jersey

FUJIFILM CORPORATION,
Plaintiff,

v.

JACK C. BENUN,
JAZZ PRODUCTS LLC,
POLYTECH ENTERPRISES LTD., AND
POLYTECH (SHENZHEN) CAMERA CO. LTD.,
Defendants.

Civ. Action No. 05-cv-1863 (KSH)

OPINION AND ORDER

This written opinion supplements the record of July 16, 2009 with the basis for this Court's denial of defendants' motion under Fed. R. Civ. P. 50 for judgment in their favor as a matter of law.

Standards for Judgment as a Matter of Law Under Fed. R. Civ. P. 50

In order to grant a judgment as a matter of law, the reviewing court must determine that there is not substantial evidence supporting the verdict. The Court cannot weigh conflicting evidence, pass on the credibility of witnesses, or substitute its judgment for that of the jury. *See, e.g., Smith v. Lightning Bolt Prods., Inc.*, 861 F.2d 863 (2d Cir. 1988). Following a

Following a jury verdict, judgments as a matter of law under Fed. R. Civ. P. 50(b) are usually limited to matters that were the subject of a Rule 50(a) motion prior to the close of evidence in the case.

Defendants' Renewed Motions Under Fed. R. Civ. P. 50

Defendants make three motions: (1) that they are entitled to judgment as a matter of law of non-infringement with respect to Achiever-type cameras; (2) that the Court should grant judgment of non-infringement as a matter of law with regard to Achiever cameras in light of the Fuji-Achiever settlement and its release language; and (3) that judgment as a matter of law should be granted in favor of defendants with respect to all non-Achiever cameras because the locus aspect of "first sale" is no longer material to the doctrine of patent exhaustion. The Court addresses each motion separately.

A. Motion for JMOL of Non-Infringement as to Achiever-Type Cameras

At the close of Fuji's case-in-chief, defendants moved unsuccessfully for a judgment of non-infringement as a matter of law pursuant to Fed. R. Civ. P. 50(a) with respect to Achiever-type cameras. Their position was that Fuji failed to prove that any defendant had made, imported, sold, or offered for sale any Achiever-type cameras which infringed any patent at issue. At that time, defendants argued that Fuji introduced a single camera claimed to infringe the '168 patent, and that Fuji never adduced any evidence that Polytech defendants had made or sold the camera, or that tied the camera to Benun or Jazz Products LLC. Defendants also contended, as

they do on their renewed motion, that this constitutes a failure of Fuji to state a *prima facie* claim of patent infringement.

Fuji presented direct and circumstantial evidence that defendants manufactured Achiever cameras that infringed Fuji's patents. Michael Zawodny, Jazz's quality manager, testified that he visited Polytech to oversee the reloading of cameras in its factory, and that defendants made and sold some Achiever cameras that infringed. (6/10/09 Trial Tr. 67:22-68:22; 76:5-79:3.) Zawodny also confirmed that Fuji's physical exhibit 1480 ("PPX-1480") was an Achiever camera reloaded by Polytech. (6/10/09 Trial Tr. 78:13-18.) Fuji's technical expert Alfred Bellow testified that PPX-1480 infringed Fuji's '168 patent. (6/5/09 Trial Tr. 138:16-139:4.) Kitty Wong's deposition testimony, which was introduced at trial, established that the "6CZFK" sticker on the PPX-1480 camera meant it was made by Polytech China. Through Wong's testimony and exhibits, Fuji presented evidence that PPX-1480 was sold by Polytech HK to Jazz Products, and eventually was retailed at Ritz Camera, and that Boria Industrial Ltd. acted as an intermediary party, buying cameras from Polytech and selling them to Jazz, with 100,032 cameras being sold as Ritz cameras to Jazz in March 2006.[1] Fuji's exhibit 109 shows that on April 7, 2006 Jazz Products sold 100,000 cameras to Ritz Camera. And the parties stipulated before the jury that PPX-1480 was purchased at Ritz Camera on May 23, 2006. The Court is satisfied that Fuji presented sufficient evidence to support the jury's findings of infringement with respect to Achiever-type cameras and that the proofs support that more than one camera was infringing.

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[1] Fuji provides relevant transcript and exhibit references at page 32 of its opposition brief.

Defendants raise the argument that the verdict form was prejudicial to them in that it confused the jury. Specifically, defendants assert:

> To be certain, the verdict sheet questions relating to the Achiever cameras confused the jurors, and Fuji told the Court and defendants that they were not asking the jury to return a verdict on the *number* of infringing Achiever-type cameras. This does not, however, cure the error, and the jury likely believed that the burden rested on defendants to prove non-infringement by other Achiever' cameras imported during Tranche III of this action.

(Defs.' Am. Mot. Post-Trial Relief Br. 35 (emphasis in original).) This argument is speculative and unpersuasive. Of more moment, defendants approved the language they now challenge. On the morning of June 11, 2009, the parties—including defendants—confirmed on the record that they were satisfied with the jury verdict form and the jury instructions, both of which were the final products of a lengthy conference among the parties and the Court during the late afternoon and evening before. (6/11/09 Trial. Tr. 4:18-5:21.) Insofar as defendants' motion rests on arguments of insufficient evidence and jury confusion, it is denied.

B. Motion for JMOL of Non-Infringement as to Achiever Cameras on the Basis of the Settlement Between Fuji and Achiever

Defendants also argue that Fuji's settlement with Achiever Industries, Inc., dated June 19, 2007 should bar the current suit. That settlement agreement resolved a patent infringement suit against Achiever, which defendants state had manufactured and sold PPX-1480. The settlement agreement grants a release from patent infringement liability to Achiever, its affiliates, and their "customers" with respect to all Achiever cameras period to the June 19, 2007 date of the agreement. (PX-705 at ¶ 4.01(a).) The settlement defines "customer" as "a purchaser of Cameras at Issue from a Party and successive purchasers of such Cameras at Issue from that Customer." (PX-705 at ¶ 1.17.) Fuji contends that defendants were not "customers" or successive purchasers and were thus not covered by the settlement, arguing that the chain of purchase is broken when a camera user "abandons" the single-use camera to a photo developer. On June 2, 2009, the Court found the settlement agreement not to bar this suit on defendants' original Rule 50 application, ruling that defendants were not "customers" due the break in the chain of camera purchasers when the camera user drops off the single-use camera for film processing and fails to reclaim the shell.

Defendants now argue that trial testimony showing that "Fuji and its licensees purchase spent camera shells from the developing laboratories" has the effect of "explod[ing]" Fuji's argument that delivery of a camera to a film developer is an "abandonment rather than a sale." Defendants

argue that this would support that they are customers, since the chain of purchase is unbroken.

In line with its earlier ruling, the Court finds that defendants are not "customers" under the terms of the settlement agreement because the photo processor does not purchase the shells, but is instead entrusted them by customers to develop the film and discard the rest. If end-user LFFP photographers chose to reclaim the spent shells from developers, it would be their right to do so. Accordingly, the spent shells are abandoned rather than sold to photo developers, and as a result, the chain of purchase is broken, and defendants are not "customers" covered by the release. In addition, the release in the June 19, 2007 settlement agreement is entirely unrelated to this action, and cannot be extended to this suit because it limits its scope to liability "arising out of the same series of transactions or the same common nucleus of operative fact as those at issue in the Lawsuit." Thus, the release contained in the Fuji-Achiever settlement agreement has no force or effect in this matter.

C. Motion for JMOL on All Non-Achiever Cameras Because the Locus of First-Sale is No Longer Material to Patent Exhaustion

Defendants also renew their argument with respect to non-Achiever cameras that the geographic limitation first-sale requirement—that first sale must take place in the United States—is no longer required to exhaust a patent. They rely on the interpretation of a U.S. Supreme Court opinion contained in an unreported district court decision from the Northern District of California, *LG Electronics Inc. v. Hitachi, Ltd.*, 2009 U.S. Dist. LEXIS 20457 (N.D. Cal. Mar. 13, 2009). Defendants

submit that this Court must determine whether to adopt the *LG Electronics* court's view that the Supreme Court decision in *Quanta Computer, L.P. v. LG Electronics, Inc.*, 128 S. Ct. 2109 (2008) overruled the Federal Circuit's 2001 *Jazz Photo* decision that imposed the "first-sale in the U.S." geographical limitation on patent exhaustion. The *LG Electronics* court broadly construed the *Quanta* precedent to mean "that exhaustion is triggered by the authorized sale of an article that substantially embodies a patent" and that exhaustion "applies to authorized foreign sales as well as authorized sales in the United States." *LG Electronics*, 2009 U.S. Dist. LEXIS 20457, at *31.

Notwithstanding the position adopted in *LG Electronics*, the controlling rule of law, as set forth in *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094, 1110 (Fed. Cir. 2001), remains that U.S. Patent rights are only exhausted when the patentee (or a licensee) sells the patented article in the United States, deriving a benefit from their U.S. patent rights. Further, because the Supreme Court's *Quanta* decision itself did not address whether foreign sales by the patentee could exhaust the patentee's U.S. patent rights, there is no reason why this Court should view the applicable law as no longer containing a first-sale requirement for patent exhaustion. Accordingly, defendants' motion for judgment as a matter of law with respect to an intervening change of the patent exhaustion doctrine is denied.

Conclusion and Order

Thus, for the foregoing reasons and

Good cause appearing,

IT IS on this 22nd day of July 2009

ORDERED that defendants' motion for judgment as a matter of law of non-infringement with respect to Achiever-type cameras, made pursuant to Fed. R. Civ. P. 50(b), is DENIED; and it is further

ORDERED that defendants' motion for judgment as a matter of law of non-infringement as to Achiever cameras in light of the Fuji-Achiever settlement and release, made pursuant to Fed. R. Civ. P. 50(b), is DENIED; and it is further

ORDERED that defendants' motion for judgment as a matter of law of non-infringement with respect to all non-Achiever cameras because the locus aspect of "first sale" is no longer material to the doctrine of patent exhaustion, made pursuant to Fed. R. Civ. P. 50(b), is DENIED.

/s/ Katharine S. Hayden
Hon. Katharine S. Hayden
U.S. District Judge

United States Court of Appeals for the Federal Circuit

FUJIFILM CORPORATION,
Plaintiff-Appellee,

v.

JACK C. BENUN,
Defendant-Appellant,

AND

JAZZ PRODUCTS LLC,
POLYTECH ENTERPRISES LTD., AND
POLYTECH (SHENZHEN) CAMERA CO. LTD.,
Defendants-Appellants.

2009-1487

Appeal from the United States District Court for the District of New Jersey in case no. 2:05-CV-1863, Judge Katharine S. Hayden.

LAWRENCE ROSENTHAL, Stroock & Stroock & Lavan LLP, of New York, New York, argued for plaintiff-appellee. With him on the brief were MATTHEW W. SIEGAL, and ANGIE M. HANKINS.

JOHN M. PETERSON, Neville Peterson LLP, of New York, New York, argued for defendants-appellants. With him on the brief were GEORGE W.

THOMPSON, and MICHAEL T. CONE. Of counsel on the brief was JERRY P. WISKIN, Simons & Wiskin, of South Amboy, New Jersey.

ORDER

A petition for rehearing en banc having been filed by the Appellants, and the matter having first been referred as a petition for rehearing to the panel that heard the appeal,* and thereafter the petition for rehearing en banc having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the petition for rehearing en banc be, and the same hereby is, DENIED.

The mandate of the court will issue on July 20, 2010.

Dated: 07/13/2010

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* Paul R. Michel, who retired on May 31, 2010, did not participate in the decision on rehearing.

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No. 10-486

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

JACK C. BENUN, JAZZ PRODUCTS LLC,
POLYTECH ENTERPRISE LTD, AND
POLYTECH (SHENZHEN) CAMERA CO. LTD.

Petitioners,

v.

FUJIFILM CORPORATION

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF IN OPPOSITION

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QUESTIONS PRESENTED FOR REVIEW

1. Whether this Court has ever upheld the affirmative defense of patent exhaustion when the owner of a U.S. patent (or its licensee) sold the goods in question outside the United States, in a sale that would not have infringed the U.S. patent even if conducted without the patent owner's authority, and where the U.S. patent owner receives no benefit of its U.S. patent.

The Petition presents the additional question of

2. Whether this Court's decision in *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008) made new patent exhaustion law and overruled at least seven years of express Federal Circuit precedent, to hold that U.S. patent rights are automatically exhausted when a U.S. patent owner authorizes goods to be sold outside the United States (but not resold in the United States), and such foreign sales would not have infringed the patent in question without such authority, nor provided the U.S. patent owner any benefit under its U.S. patent, even though the issue of exhaustion resulting from foreign sales is not discussed anywhere in this Court's *Quanta* decision.

PARTIES TO THE PROCEEDING

Alleged Petitioner Jazz Products LLC has been ordered liquidated in bankruptcy, and therefore, no longer exists. *In re Jazz Products LLC*, Case No.: 09-33687, (Bankr. D.N.J. Dec. 23, 2009)(Order Converting Chapter 11 Case To Chapter 7). Likewise, Petitioner Jack C. Benun ("Benun") has advised (and on information and belief, Fujifilm believes) that the Chinese entities, Polytech Enterprise Ltd. and Polytech (Shenzhen) Camera Co. Ltd., ceased operations years ago. Accordingly, the only petitioner believed to exist at this time is Benun.

Respondent FUJIFILM Corporation ("Fuji"), the plaintiff below, is still in business. Fuji's predecessor, Fuji Photo Film Co., Ltd., was the successful plaintiff in *Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1994 (Fed. Cir. 2001), *cert. denied*, 536 U.S. 950 (2002) ("*Jazz v. ITC*"), *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368 (Fed. Cir. 2005) ("*Fuji v. Jazz*") and *Fujifilm Corp. v. Benun*, 605 F.3d 1366 (Fed. Cir. 2010) (*per curiam*) ("*Fujifilm v. Benun*"). Either Benun, in *Fuji v. Jazz* and *Fujifilm v. Benun*, or his first company, Jazz Photo Corp., in Jazz v. ITC and Fuji v. Jazz, also was a party to each of these proceedings. Note that Jazz Photo Corp. was also liquidated in bankruptcy. Moreover, Benun has been found to have willfully and maliciously infringed Fuji's patents after the *Jazz v. ITC* and *Fuji v. Jazz* decisions. Consequently, a portion of his debt against Fuji was found to be non-dischargeable in bankruptcy (*In re Benun*, 386 B.R. 59 (Bankr. D.N.J. 2008).

In the case below, Benun was found in contempt of a preliminary injunction against infringing Fuji's patents (App. 4a) and to have willfully infringed Fuji's patents during the 2008-2010 period (App. 5a). His continuous willful infringement over more than ten years makes Benun a particularly unworthy Petitioner in this Court.

RULE 29.6 CORPORATE DISCLOSURE STATEMENT

Pursuant to Rule 29.6 of this Court, Fujifilm Corporation is a wholly owned subsidiary of FUJIFILM Holdings Corporation, of Tokyo Japan.

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Thomas G. Hungar, *Observations Regarding the Supreme Court's Decision in Quanta Computer, Inc. v. LG Electronics, Inc.*, 49 IDEA 517 (2009) 21

SUMMARY OF ARGUMENT

The question presented for review in this case, is essentially the same question that had been presented to this Court by essentially the same patent infringement inducer in 2002, when this Court denied a petition for a writ of certiorari from the 2001 Federal Circuit decision in *Jazz v. ITC* [1] on the very same issue of patent exhaustion resulting from foreign sales by Fuji and its licensees.

As Benun admits in his petition, patent exhaustion is an affirmative defense to patent infringement. Petition at 7, n.5. It is judge made law and finds no basis in the patent statute or any other statutes. Accordingly, until a court of controlling authority, such as this Court or the Federal Circuit, rules that foreign sales can exhaust a U.S. patent, Benun is not entitled to assert this affirmative defense. In fact, no decision by this Court or the Federal Circuit has ever based the exhaustion of a U.S. patent on a foreign sale. Rather, the most directly applicable precedent was established in *Jazz v. ITC*, which *refused* to expand patent exhaustion to extraterritorial sales. This Court denied Benun's prior company's (Jazz Photo) petition for a writ of certiorari on the very same issue in 2002. *Jazz Photo*, 536 U.S. 950. Nothing has changed in the law to expand patent exhaustion to extraterritorial sales.

There is no reason to extend exhaustion to foreign sales. A U.S. patent owner does not obtain any benefit from his U.S. patent from a foreign sale. Having a U.S.

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1. *Jazz Photo Corp. v. Int'l Trade Comm'n*, 536 U.S. 950 (2002).

patent does not permit the U.S. patent owner to increase his price or charge competitors royalties for sales that are not protected by the exclusivity in the United States accorded by a U.S patent. Rather, the U.S. patent owner competes in foreign markets with exactly the same stature whether or not it owns a U.S. patent. Accordingly, it would be unfair to exhaust the U.S. patent owner's U.S. patent rights, because it did not obtain any benefit from its U.S. patent with respect to the sale in question.

Notwithstanding Benun's arguments to the contrary, this Court's decision in *Quanta* did not address the issue of patent exhaustion resulting from sales outside the United States. That question was not before this Court. Therefore, the law of patent exhaustion resulting from foreign sales remains governed by *Boesch v. Graff*, 133 U.S. 697 (1890), *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659 (1895), *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007), *Jazz v. ITC*, *Fuji v. Jazz*, *Fujifilm v. Benun*, and other cases discussed herein. None of these cases extended patent exhaustion to foreign sales. Rather, these cases confirm that when a sale takes place outside the United States and the patent owner has not authorized importation into the United States, the sale does not and should not exhaust any U.S. patents. This is true, because the seller obtained no royalty and derived no benefit from its U.S. patent when the goods in question were sold overseas.

Accordingly, certiorari should be denied.

ARGUMENT

I. NO SUPREME COURT DECISION HAS EVER ESTABLISHED FOREIGN EXHAUSTION BECAUSE U.S. PATENT LAW IS DOMESTIC IN NATURE

No decision of this Court (or the Federal Circuit) has ever held that sales of goods authorized by a U.S. patent owner, that occur outside the United States, exhaust the U.S. patent rights in the goods involved in the foreign sale. Therefore, there is no affirmative defense of patent exhaustion when the goods in question are authorized to be sold by the U.S. patent owner outside the United States.[2] This is in part, because the U.S. patent owner obtains no benefit from its U.S. patent under such sale and therefore, there is no reason to exhaust its U.S. patent rights.

Benun incorrectly frames the issue with an unsupported assumption that the *absence* of case law placing a territorial limitation on exhaustion implies that none exists. However, as discussed below, the patent laws do not provide for exhaustion — patent exhaustion is judge-made law. Accordingly, the proper way to frame the issue presented by Benun's Petition Brief at page 10 is that this Court has *not*, "in nearly 150 years of

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2. This is the patent "first sale" rule, confirmed by the Federal Circuit, that Benun would have this Court overrule. The first sale rule confirms a circumstance where exhaustion of a U.S. patent does **not** occur. There is no dispute that an authorized sale of a patented product in the United States does exhaust the patent as to that specific product.

patent exhaustion jurisprudence, ever identified or hinted at a territorial [expansion of][3] the rule of patent exhaustion" beyond the boundaries of the United States. Because this Court has not expanded patent exhaustion into foreign markets, the Federal Circuit was correct to hold that patent rights are not exhausted when the U.S. patent owner sells his goods outside the reach of his U.S. patent and does not authorize their resale in the United States.

As this Court ruled in *Microsoft*, the laws should be interpreted with a presumption that **patent laws are not extraterritorial in nature**:

> Any doubt that Microsoft's conduct falls outside § 271(f)'s compass would be resolved by the **presumption against extraterritoriality**, on which we have already touched. ... The presumption that United States law governs domestically but does not rule the world applies with **particular force in patent law**. The traditional understanding that **our patent law "operate[s] only domestically** and d[oes] not extend to foreign activities," Fisch & Allen, *supra*, at 559, is embedded in the Patent Act itself, which provides that a patent confers exclusive rights in an invention within the United States. 35 U.S.C. § 154(a)(1) (patentee's rights over invention apply to manufacture, use, or sale "throughout the United States" and to importation "into the United States"). *See*

3. Modification of meaning intentional.

> *Deepsouth*, 406 U.S., at 531, 92 S.Ct. 1700 (**"Our patent system makes no claim to extraterritorial effect**"; our legislation "d[oes] not, and [was] not intended to, operate beyond the limits of the United States, and we correspondingly reject the claims of others to such control over our markets." (quoting *Brown*, 19 How., at 195, 15 L.Ed. 595)).

550 U.S. 437, 454-55 (2009)(emphasis added).

A. Authorized Sales In Or To The United States Exhaust A U.S. Patent Because Such Authorized Sales Provide The U.S. Patent Owner With A Benefit From Its U.S. Patent

The patent laws were passed, in part, to satisfy the requirements of Article I, §8, cl. 8 of the Constitution, that Congress promote the progress of science and the useful arts by securing for inventors the exclusive right to their inventions. Thus, a patent grants its owner one right – to exclude others from invading that constitutionally based **exclusivity in the U.S. market**. 35 U.S.C. § 271. The owner of a U.S. patent can legally benefit from that U.S. market exclusivity by raising its prices in the United States or by charging licensees royalties for access to that U.S. market exclusivity. A patent owner can also sue for and collect damages as a result of any infringement on that exclusivity in the U.S. market.

This Court's cases are consistent that while a U.S. patent owner is entitled to but one benefit from its U.S. patent, it nevertheless ***is*** entitled to that one benefit. *See, e.g. Bloomer v. Millinger*, 68 U.S. (1 Wall.) 340, 350 (1863) ("Patentees acquire the exclusive right to make and use, and vend to others to be used, their patented inventions ...[but] [t]hey are entitled to but one royalty...."); *United States v. Masonite Corp.*, 316 U.S. 265, 278 (1942) ("the dominant concern of the patent system.... [is] the promotion of the progress of science and the useful arts...."); *Boesch*, 133 U.S. at 702 ("The franchise which the patent grants consists altogether in the right to exclude every one from making, using or vending the thing patented without the permission of the patentee."); *Keeler*, 157 U.S. at 664-65 (patent rights were not exhausted because "neither the patentee nor any assignee had ever received any royalty or given any license to use the patented article in any part of the United States.").

> Our decisions have uniformly recognized that the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article ...

United States v. Univis Lens Co., 316 U.S. 241, 251-52 (1942).

Patent exhaustion is judge-made law, based on the premise that after a U.S. patent owner obtains a benefit from its patent, with respect to specific goods sold, the exclusivity in those goods has been exhausted. *See, e.g.*

Univis, supra. Benun's Petition confirms that the basis for patent exhaustion is that the patent owner has already enjoyed its one guaranteed benefit derived from his U.S. patent. Petition at 17. It therefore follows that exhaustion is not appropriate until after a patent owner receives its benefit under its U.S. patent rights as a result of such sales.

Benun cites *Keeler*, 157 U.S. at 666-67, for the proposition that patent exhaustion is acceptable as long as it does not deprive the U.S. patent owner the "tribute" guaranteed under that patent. Petition at 27-28. Benun also relies on *Masonite*. Petition at 28. However, these cases do not support his position. Both *Masonite* and *Keeler* confirm that patent exhaustion does not result until after the patent owner has been fairly compensated for its United States patent rights. *Masonite*, 316 U.S. at 278 ("The test has been whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article."); *Keeler*, 157 U.S. at 665-7.

Accordingly, it is clear that Fuji's U.S. patent rights in the cameras at issue were not exhausted until Fuji received a benefit from those U.S. patent rights.

B. Sales Outside the United States Do Not Exhaust A U.S. Patent Because They Do Not Provide The U.S. Patent Owner A Benefit From Its U.S. Patent

This Court has never held that a foreign sale, even if authorized in the foreign country by the U.S. patent owner, exhausts a U.S. patent.[4] The law in this country has always been that the patent laws are not extraterritorial. *E.g. Microsoft*, 550 U.S. at 454-55; *Boesch*, 133 U.S. at 703. Moreover, three times, over nine years, the Federal Circuit has confirmed that foreign sales of a product under the authority of the U.S. patent owner **do not** exhaust a U.S. patent, absent the patent owner authorizing the importation of the patented article. *Fujifilm v. Benun*, 605 F.3d at 1371; *Fuji v. Jazz*, 394 F.3d at 1376; *Jazz v. ITC*, 264 F.3d at 1105.

The above Federal Circuit rulings unequivocally state that U.S. patent rights are only exhausted after the patentee (or its authorized licensee) sells or authorizes the sale of the patented article in the United States. *Fujifilm v. Benun*, 605 F.3d at 1371; *Fuji v. Jazz*, 394 F.3d at 1376; *Jazz v. ITC*, 264 F.3d at 1105. These rulings are based on the recognition that a U.S. patent owner derives a benefit from its U.S. patent rights only by virtue of an authorized U.S. sale. This "first sale" doctrine remains the unequivocal controlling rule of law to be applied in patent cases and as discussed below, this doctrine was not affected by this Court's holding in *Quanta*.

4. This case does not involve situations where resale in the U.S. is expressly or implicitly authorized by the U.S. patent owner.

When a U.S. patent owner sells a product covered by its U.S. patent overseas, its sales are not protected by its exclusive rights in the United States. Its U.S. patent cannot be used to exclude others from making those foreign sales. Consequently, the U.S. patent owner in no way derives any benefit from those sales under its U.S. patent. The U.S. patent owner must compete head-to-head with its foreign competitors. It cannot charge higher prices in foreign markets because its U.S. patent gives it no exclusivity in those foreign markets. *See Fuji Photo Film Co. v. Jazz Photo Corp.*, 249 F. Supp. 2d 434, 450 (D.N.J. 2003), *aff'd*, 394 F.3d 1368 (Fed. Cir. 2005).

A U.S. patent owner derives no benefit from its U.S. patent when it competes in foreign markets. "United States patent laws 'do not, and were not intended to, operate beyond the limits of the United States[.]" *Fuji v. Jazz*, 394 F.3d at 1376 (quoting *Int'l Rectifier Corp. v. Samsung Elecs. Co.*, 361 F.3d 1355, 1360 (Fed. Cir. 2004) and *Brown v. Duchesne*, 60 U.S 183, 195 (1856)). "**[F]oreign sales can never occur *under* a United States patent.**" *Fuji v. Jazz*, 394 F.3d at 1376 (emphasis added).

This Court has confirmed that foreign sales do not occur "under" a U.S. patent, given that U.S. patent rights generally do not apply extraterritorially. For example, in *Microsoft*, 550 U.S. at 441 and in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972), this Court recognized that U.S. patents are not infringed when inventions covered by a U.S. patent are practiced outside U.S. borders. *See also, Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1251 (Fed. Cir. 2000). For this reason, foreign sales are not benefitted by U.S. patents and therefore, do not exhaust U.S. patent rights.

A foreign first sale, even if by the patent owner or its licensee, does not involve the exercise of any rights under a U.S. patent. Even if the overseas seller possessed the authority to sell the product in the United States, the foreign sale would not be an "authorized sale" within the meaning of the patent-exhaustion doctrine unless the foreign first sale was coupled with the patent owner's express or implied authorization to re-sell the patented product in the United States. *See Fuji v. Jazz*, 394 F.3d at 1376.

Interestingly, Benun's explanation of this Court's holding in *Boesch* (Petition at 13), establishes exactly why foreign sales, which are outside the reach of the U.S. patent laws, do not exhaust U.S. patent rights. Benun explains that in *Boesch*, there was no exhaustion because the U.S. patent owner had not received any benefit from the U.S. patent. *Id.*; *accord*, *Keeler*, 157 U.S. at 665. As this Court explained in *Keeler*, "neither the patentee [in *Boesch*] nor any assignee had ever received any royalty or given any license to use the patented article in any part of the United States." *Id.* For that reason, the failure of the U.S. patent owner to receive its benefit under its U.S. patents, means that the foreign sale did not exhaust the U.S. patent rights. *Id.* Thus, in *Keeler*, this Court confirmed that "no article can be unfettered from the claim of [the patentee's] monopoly without paying its tribute"[5] to the U.S. patent owner. *Id.* at 666-67. Accordingly, it is well settled that

5. In *Keeler*, the patent defendant purchased wardrobe bedsteads from the patent owner in one state and sold them in another where the rights were held by a third party. Nonetheless, the sale exhausted the patent rights in the entire United States. 157 U.S. at 666.

enjoying the benefit of a U.S. patent, whether by receiving a royalty or the ability to raise prices because there is no unlicensed competition, is what leads to patent exhaustion, not mere revenue from sales that were in no way benefitted by the U.S. patent.

Benun agrees that patent exhaustion is based on the theory that while a patent owner is entitled to a benefit from his or her patent, the owner is only entitled to one benefit per product sold under that patent. However, Benun argues that where the sale takes place is not relevant. Critical to this argument is his naked assertion that a patent owner *does* obtain a benefit under its U.S. patent when the U.S. patent owner sells a patented product overseas: "it is undisputed that Fujifilm, the patentee, authorized the first sale of every one of the cameras at bar and reaped compensation for its patent rights in such sales." Petition at 17. Nevertheless, Benun did not explain *how* Fuji "reaped compensation" from those foreign sales any more than if it had no U.S. patents at all.

When a patent owner with only U.S. and European patents makes a product in China and sells it in Japan, the owner competes with every other manufacturer for that Japanese sale. Having the U.S. patent does nothing to restrict the patent owner's competition in Japan or anywhere outside the United States, for that matter. The U.S. patent owner cannot use its U.S. patent to charge increased prices in Japan, nor can it use that U.S. patent to demand royalties from its competitors (unless the transaction also involves authorization to resell in the United States). To the extent an owner of U.S. and European patents can charge patent enhanced

prices or demand royalties from competitors in Europe, that is a result of the European patent laws, not the U.S. patent laws. The U.S. patent owner obtains no benefit under its U.S. patent for its foreign sales unless those foreign sales include authority to resell in the United States.

Accordingly, it is manifestly unfair to permit a foreign purchaser, who bought products at a low price in a foreign market, because the U.S. patent owner had no protection from its U.S. patent, to resell those very products in the United States with no concern for the U.S. patent.

C. This Court's Decision in *Boesch* Did Not Establish Foreign Exhaustion

Benun would have this Court draw a conclusion that is not found anywhere in this Court's decision in *Boesch*. First, Benun correctly states the issue in *Boesch*:

> whether a dealer residing in the United States can purchase in another country articles patented there, from a person authorized to sell them, and import them to and sell them in the United States, without the license or consent of the owners of the United States patent.

Petition at 18 (*quoting Boesch*, 133 U.S. at 702). In *Boesch*, this Court held that because the importer did not have a license or consent from the U.S. patent owners, the importation was an infringement of the U.S. Patent. However, Benun then draws the unsupported conclusion that *Boesch* supports exhausting U.S. patents as a result of foreign sales.

A basis for the *Boesch* holding was that the U.S. patentee never received any royalty or other reward under its U.S. patent. Benun makes the unsupported leap that if the foreign seller also had been the U.S. patent owner, then, this Court would have ruled that there *was* patent exhaustion. Petition at 17-18. Benun ignores the reality that the U.S. patent owner would still remain without any royalty or reward from his U.S. patent. Benun's surmise, which is critical to his argument, finds no support in the *Boesch* decision.

D. There Is Symmetry Between Exhaustion And Infringement

The symmetry between exhaustion and infringement is one of several necessary symmetries to many aspects of the patent law. For example, that which infringes if later, anticipates if before.[6] Insignificant differences between an accused product and the literal words of a patent claim do not prevent the product from infringing under the doctrine of equivalents[7] and insignificant differences between a prior art reference and a patent claim do not prevent the prior art from invalidating the claim under the doctrine of obviousness.[8] A sale that infringes a patent, if sold by one not authorized by the patent owner, exhausts the patent if sold by one that is authorized by the patent owner.[9]

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6. *Peters v. Active Mfg. Co.*, 129 U.S. 530, 537 (1889).

7. *Voda v. Cordis Corp.*, 536 F.3d 1311, 1326 (Fed. Cir. 2008).

8. *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398,401-02 (2007)

9. *Jazz v. ITC*, 264 F.3d at 1105.

This symmetry is implicit in this Court's holding in *Quanta*. This Court held that sales that would cause contributory infringement if unauthorized, exhaust patent rights if authorized. *Quanta*, 553 U.S. at 626, 631. Section 271(c) of the U.S. Patent Law establishes that for a sale to be a contributory infringement, that sale must occur in the United States:

> Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine ... knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

35 U.S.C. § 271(c). Therefore, because unauthorized sales (in the United States) of a non-staple component of a patented product can cause contributory infringement, those same sales will lead to patent exhaustion if they are authorized.

In accordance with the foregoing, it clearly follows: sale of a product that does not infringe a U.S. patent because the sale occurred outside of the United States, does not exhaust the U.S. patent even if sold by the U.S. patent owner, unless the patent owner also authorized resale of that product in the United States. A foreign sale does not confer the U.S. patent owner with any benefit, such as a royalty, increased profit or otherwise **under his U.S. patent**. A U.S. patent owner cannot use its U.S. patent to enjoy the exclusive right

to its invention in foreign markets. The owner cannot demand royalties from its competitors on foreign sales that would have infringed the U.S. patent if sold in the United States unless it authorized resale in the U.S. Accordingly, there is no basis for holding that a foreign sale by the U.S. patent owner exhausted its U.S. patent rights.

II. *QUANTA* DID NOT EXPAND PATENT EXHAUSTION TO INCLUDE FOREIGN SALES

This Court's ruling in *Quanta*, may have addressed many issues, but exhausting U.S. patents as a result of extraterritorial sales was not one of them. Rather, *Quanta*, not surprisingly, confirmed earlier Supreme Court precedent (*Univis*) that the sale of less than all of the components of a patented combination, that have no substantial noninfringing use, can exhaust a patent. 553 U.S. at 633. *Quanta* held that patent exhaustion can apply to method patents. *Id.* at 628-29.[10] *Quanta* also held that the type of restrictions in LG Electronics Inc.'s ("LG") license to Intel Corporation ("Intel") was ineffective to preclude exhaustion when products were sold under that license. *Id.* at 635-36. However, *Quanta* did not hold that foreign sales exhaust U.S. patent rights. In fact, that issue was not even under consideration.

10. The Federal Circuit in *Jazz v. ITC* in fact reached the same conclusion, although stating a method version of the patent first sale rule. *Jazz v. ITC*, 264 F.3d at 1108-09.

A. Background: The Patents And Licenses At Issue In *Quanta*

LG is the owner of the three patents at issue in *Quanta* (collectively, the "LG Patents"). *Quanta*, 553 U.S. at 621; *see LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1377-78 (Fed. Cir. 2006). The LG Patents relate to systems whereby a microprocessor writes or reads data to or from memory units. *Id.* LG licensed Intel (the "License Agreement") to make, use, or sell combination products practicing the LG Patents. *Quanta*, 553 U.S. at 623. The License Agreement restricted Intel from passing, to any of its customers, a license under the LG Patents to make the patented combination by combining Intel's unpatented chips with components acquired from a source other than Intel. *Id.* On the other hand, the License Agreement clearly stated that it did not "limit or alter the effect of patent exhaustion that would otherwise apply when [Intel] sold any of its Licensed Products." *Id.* This Court found this express agreement to not alter the effects of patent exhaustion, to be important in its holding. *Id.*

Intel and LG also entered into a second "Master" agreement in which Intel agreed to provide written notice to its customers that its license from LG "does not extend, expressly or by implication, to any product that [a subsequent purchaser] make[s] by combining an Intel product with any non-Intel product." *Id.* However, while the Master Agreement included this notice provision, this Court held that it did not impose an affirmative restriction on Intel's sales that would alter the effects of patent exhaustion. *Id.* at 635-36.

Intel sold chips and microprocessors (the "Intel Chips") to Quanta, but not the standard hardware (*e.g.*, wires, buses and memory units) used to connect the Intel Chips in a working computer. Intel provided Quanta with the notice required by the Master agreement. *Id.* at 623. None of the Intel Chips infringed the LG Patents until assembled with that standard hardware into a computer. However, the Intel Chips were "specifically designed to function only when memory or buses are attached." *Id.* at 633. Therefore, the "only reasonable and intended use [for the Intel Chips] was to practice the [LG Patents]." *Id.* at 631. In fact, "Intel all but practiced the patent itself by designing its products to practice the patents, lacking only the addition of standard parts." *Id.* at 633.

B. *Quanta* Confirmed That Sales That Would Cause Contributory Infringement If Unauthorized, Would Cause Patent Exhaustion If Authorized, But The Decision Did Not Create Foreign Exhaustion

The dispute arose after Quanta manufactured computers by combining the Intel Chips with non-Intel standard hardware, in a way that the assembled computer practiced the LG Patents. The issue this Court resolved was whether those computers infringed the LG Patents or whether Intel's authorized sale of the Intel Chips exhausted LG's rights to patents covering a system containing those chips. Whether the LG Patents would be exhausted if Intel sold its chips outside the United States was **not** at issue and was not ruled on by this Court.

The district court granted Quanta's motion for partial summary judgment. It held that patent exhaustion applied to the sale of unpatented Intel Chips because they were not staple articles of commerce, i.e., they had no meaningful function except as components in the patented systems. *LG Elecs. Inc. v. Asustek Computer Inc.*, 65 U.S.P.Q. 2d 1589, 1598-1600 (N.D. Cal. 2002). The Federal Circuit disagreed. *See Bizcom*, 453 F.3d at 1370. It held that the sale of the Intel Chips was not an authorized sale, because their sale was conditioned on an agreement not to combine those chips with non-Intel products. It concluded that the exhaustion doctrine does not apply to an expressly conditioned sale or license, nor to method patents. Exhaustion based on foreign sales was not addressed in the Federal Circuit's decision.

This Court held that the License Agreement was not effective to turn the sale into an unauthorized sale and that *Univis* governed the case. In *Univis*, this Court found that exhaustion occurs when the only reasonable and intended use of the product sold is to complete the patented combination. *Quanta*, 553 U.S. at 631. This Court found that as with the product at issue in *Univis*, the Intel Chips substantially embodied the patented invention and all but completely practiced the LG Patents because the "only step necessary to practice the patent is the application of common processes or the addition of standard parts." *Id.* at 633.

This Court ruled that patent exhaustion applied to method patents (*id.* at 628),[11] and because Intel was authorized to sell components sufficient to contribute to the infringement of the LG Patents, the doctrine of patent exhaustion prevented LG from asserting its patent rights against Quanta's computers. Importantly, nothing in *Quanta* in any way addresses the issue of foreign exhaustion.

A careful review of the *Quanta* decision confirms that nowhere does it discuss whether any of Intel's allegedly patent exhausting sales were made outside the United States. The reason for this is clear. The issue of foreign sales was not before this Court. The issue of foreign sales was absent from Petitioner Quanta's opening brief to this Court. It is not until the last page of Respondent LG's 53 page brief, at footnote 19, that a mention of possible foreign sales even appears. In that footnote, LG merely suggested that "whether the sales of the components took place exclusively outside the United States" was an "open" issue. Clearly, LG understood the law to be that foreign sales would not have exhausted its patents.

Quanta also understood that foreign sales would not exhaust LG's U.S. patent rights. Instead of arguing (without basis) that those foreign sales would in any event, exhaust LG's patents, Quanta argued that **the issue of foreign sales was not before this Court**:

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11. Unlike its earlier decisions, in *Jazz v. ITC*, the Federal Circuit correctly ruled that patent exhaustion applies to method patents, albeit subject to a method patent version of the first sale doctrine. 264 F.3d at 1108-09.

> [LG] also suggests (RespBr-53 n.19) that it might still argue that exhaustion should not apply because these sales may have occurred outside the United States. **[LGE] has never made this argument before, never even requested discovery on the locus of Intel's sales to Quanta, and has clearly waived this issue.**

Quanta Reply Br. at 3-4, n.2 (emphasis added). Nothing in this Court's *Quanta* decision addresses the locus of Intel's sales. Accordingly, *Quanta* did not involve the issue of foreign sales.

Nevertheless, in *Quanta*, this Court had an opportunity to address this precise issue and **did not hold that foreign sales exhaust U.S. patent rights**. Section "B" of the *Quanta* decision involved "the extent to which a [noninfringing] product must embody a patent in order to trigger exhaustion." *Quanta*, 553 U.S. at 629. In *Univis*, this Court held that a sale of less than an entire patented combination will trigger exhaustion when a product's "only reasonable and intended use [is] to practice the patent." *Id.* at 631. LG argued that the Intel Chips did have a reasonable noninfringing use — use overseas — that would not infringe LG's patents (LG's "overseas" argument). *Id.* at 631, n.6. Therefore, this Court had the opportunity, but did not indicate that such hypothetical foreign sales would have, in any event, exhausted LG's patents.

This Court held that, for purposes of determining whether the sale of less than the patented combination triggers exhaustion, the analysis considers whether the only reasonable use is one that practices the patent, even if not technically infringing the patent. Therefore, the Intel Chips were held to be the type of products that **can** exhaust a patent, even if they do not infringe the patent when sold overseas. *Id.* In other words, this Court ruled that theoretical foreign use was not an example of the type of potential noninfringing use that could avoid a finding of contributory infringement, and therefore avoid a finding of patent exhaustion. *Id.* Accordingly, this Court had the opportunity to state that the foreign sales could nevertheless exhaust LG's patent rights, but did not.

The former Deputy Solicitor General who argued *Quanta* for the U.S. agrees that whether the LG Patents would be exhausted if Intel sold its chips outside the U.S. was not at issue and was not ruled on by this Court. Thomas G. Hungar, *Observations Regarding the Supreme Court's Decision in Quanta Computer, Inc. v. LG Electronics, Inc.*, 49 IDEA 517, 543, n.128 (2009) (concluding that even after Quanta "the overseas sale of an article or component that is the subject of a U.S. patent cannot exhaust the patent holder's rights, because no authorization under the U.S. patent would have been required or exercised in that overseas sale, given that U.S. patent rights generally do not apply extraterritorially.") Accordingly, based on the foregoing, it is clear that Petitioner's arguments that *Quanta* made new law with respect to foreign sales exhausting U.S. patents has no basis.

C. The *LG v. Hitachi* Case is not the Remand of *Quanta*

In an effort to support his argument that *Quanta* actually did involve the issue of foreign sales, Benun asserts, with no support or citation, that the *LG Elecs., Inc. v. Hitachi, Ltd.* 655 Supp.2d 1036, (N.D. Cal. 2009) case was the remand of this Court's *Quanta* decision. Petition at 18-19 and *passim*. However, Benun's assertion is without basis. The district court case underlying *Quanta* was *LG Elecs. v. Asustek*, 248 F. Supp. 2d 912 (N.D. Cal. 2003). *Asustek* was decided in 2003 and does not identify Hitachi as a defendant. This court's decision in *Quanta* was decided in 2008. *LG v. Hitachi* was filed on December 31, 2007 as civil action no. 4:07 cv 06511 and does not name Quanta as a party.

LG v. Hitachi confirms that it involves a separate lawsuit: "LGE now charges Hitachi with infringing the patents-in-suit in the same way that it alleged the defendants in *Quanta* infringed those patents ...." 655 F. Supp. 2d at 1040. Accordingly, it is clear that the *LG v. Hitachi* case involved a different defendant, different underlying facts and in no way establishes that this Court decided *Quanta* under an understanding that foreign sales were at issue.

Moreover, the district court's supposedly persuasive reasoning in *LG v. Hitachi* includes an important flaw. That court incorrectly reasoned that limiting exhaustion to domestic sales would permit the patent owner to do an "'end run' around the exhaustion doctrine by authorizing a [foreign] sale, **thereby reaping the benefit of its [U.S.] patent**, then suing a downstream purchaser

[in the U.S.] for patent infringement." 655 F. Supp. 2d at 1046. (emphasis added). The court acknowledged that U.S. patent laws do not give U.S. patents any extraterritorial effect. It understood that there is no liability under a U.S. patent for sales occurring outside the U.S. However, it then erroneously reasoned that such extraterritorial effect and triggering exhaustion are unrelated. *Id.* at 1047.

The critical flaw in this argument is that **the U.S. patent owner derives no benefit from its U.S. patent when it sells the patented product overseas unless it authorizes resale in the U.S.** This lack of extraterritoriality is precisely what precludes the owner of a U.S. patent from "reaping the benefit of its [U.S.] patent" when a sale occurs outside the United States. *Id.* at 1046. The patent owner cannot restrict competition or exact royalties based on its U.S. patent from foreign sales. Therefore, the U.S. patent owner derives no benefit from its U.S. patent for the foreign sales. Accordingly, limiting exhaustion to domestic sales does not permit an end run around the exhaustion doctrine.

III. BENUN'S DOOMSDAY PREDICTIONS DO NOT SURVIVE ANALYSIS

A. Manufacturers Have Not Been Repeatedly Suing Their Customers

Benun's predictions of patent owners mercilessly and repeatedly suing their retailer customers or moving manufacturing overseas to avoid patent exhaustion is premised on a recent change in the law, whose dire effects have not yet begun to be realized. In fact, no

recent change in the law exists. This Court has never expanded exhaustion to foreign sales and it has been almost ten years since the Federal Circuit in *Jazz v. ITC* confirmed that foreign sales do not exhaust U.S. patents. Moreover, Benun has not identified a single lawsuit against a retailer over whether the retailer purchased its patented goods in the United States. There is no evidence in the record of a single company moving manufacturing overseas to avoid the consequences of patent exhaustion.

There is, however, evidence of the opposite occurring. The distinctions between the goods from the U.S. manufacturing facility and foreign factories were helpful to Fujifilm in proving that certain products were not first sold in the United States. *Fuji Photo Film Co. v. Int'l Trade Comm'n*, 474 F.3d 1281, 1293-94 (Fed. Cir. 2007); *Fuji Photo Film*, 249 F. Supp. 2d at 451, n.22. Worldwide production of the single use cameras that were the subject of the Fujifilm cases has been consolidated in the United States, not moved overseas. Clearly, it is much easier for a company to address the foreign exhaustion issues by contract than by moving centers of manufacturing. Accordingly, Benun's wild speculations regarding supposed uncertainty simply do not hold true.

B. Justice Breyer's Bicycle Hypothetical from *Quanta* Is Not Relevant Here

Justice Breyer's Bicycle Hypothetical (Petition at 26) is not relevant to this case. If the pedals were first sold in the United States by the patent owner, the patent rights in those pedals have been exhausted. However,

the purchaser of the pedals in the bicycle shop, like any consumer at any retailer, has no real way of telling whether the shop obtained the pedals in an authorized manner, whether they are counterfeits, whether they were stolen or whether they infringe some third party patent. The fact of the matter is that consumers can rarely tell whether the goods they are buying infringe someone's patent, nor do they care, since infringement suits against individuals are quite the exception and none have been identified in Benun's Petition. More importantly, JusticeBreyer's hypothetical in *Quanta* was most likely related to the issue of a component as part of a patented whole.

C. Fuji Did Not Perform An "End-run" Around the Exhaustion Rule

Benun contends that precluding patent exhaustion from resulting from a foreign sale by the U.S. patent owner permitted Fuji to accomplish an "end-run" around the exhaustion rule. By this, Benun means that Fuji reaped the benefit of its U.S. patent, then sued a downstream indirect customer of the very product at issue for patent infringement. Of course, this is completely untrue and unsupported.

First, as discussed above and as is ignored by Benun's Petition, when Fuji or one of its licensees sells a camera outside of the United States, Fuji obtains absolutely no benefit under its U.S. patent. Even if Fuji did have a foreign patent in a foreign country, whatever benefit Fuji obtained under that foreign patent is determined under the foreign laws of that foreign country. Different foreign countries may or may not

provide the same type of benefits under their patent laws that the United States provides under its patent laws. Nevertheless, as the Supreme Court explained in *Boesch*, "the sale of articles in the United States under a United States patent cannot be controlled by foreign laws." Boesch, 133 U.S. at 703.

Moreover, the record is clear that when Fuji sells one of the single use cameras at issue, it intends for the customer to use the camera once and then turn it in to a film processor. Benun admits that after the film processor "crack[s]" open the camera to access the film, all that is left is a "spent" empty shell. Petition at 4. New film is installed and the shell is taped together and repackaged in his factories in China. Fuji has no intention that anyone turn the spent shell into a new camera that will be sold in the United States. Thus, when Fuji sells a camera in a foreign country, it has no scheme to sue downstream secondary customers in the United States. There is a complete lack of privity between the factories that collect the spent shells and Fuji. Accordingly, there is no evidence in the record of Fuji trying to perform any "end-run" around any laws or contracts.

CONCLUSION

For all the above reasons, the petition for certiorari should be denied.

Respectfully submitted,

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No. 10-486

IN THE

Supreme Court of the United States

JACK C. BENUN, JAZZ PRODUCTS LLC, POLYTECH ENTERPRISE LTD, and POLYTECH (SHENZHEN) CAMERA CO. LTD.,

Petitioners,

—v.—

FUJIFILM CORPORATION,

Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

REPLY BRIEF IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

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Pursuant to Supreme Court Rule 15.6, Petitioners[1] reply to new points in Respondent Fujifilm Corporation's Brief in Opposition to the Petition for a Writ of Certiorari.

ARGUMENT

Petitioners ask this Court to address whether a patentee may use the patent law to control resale or disposition of a product that embodies its patents, which has been the subject of a patentee-authorized sale outside the United States. The specific issue is whether the rule of exhaustion announced in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 638 (2008)—"The authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article"—is subject to an unstated territorial restriction.

Notwithstanding *Quanta*'s broad pronouncement, the Federal Circuit ruled below that U.S. patent rights are strictly territorial, and are never exhausted by a sale abroad, even when by the patentee or with its authorization. Pet. App. 8a–9a.

Respondent admits (Br. in Opp. 3) that this Court has never addressed whether authorized foreign sales exhaust patent rights. This enhances Petitioners' request that this Court address the question. Absent resolution, international traders cannot understand their rights to import and to sell goods

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[1] Fujifilm incorrectly states that "the only petitioner believed to exist at this time is Benun," Br. in Opp, at ii. Polytech Enterprise Ltd. is an active Hong Kong corporation.

purchased abroad from patentees, licensees, or their successors-in-title.

Fujifilm claims this Court need not address international patent exhaustion because (1) "U.S. patent law is domestic in nature," Br. in Opp. 3–15; and (2) *Quanta* did not "expand" patent exhaustion to reach foreign sales, *id.* at 15–23. Neither argument diminishes the need to address the international patent exhaustion issue.

I. WHETHER THE PATENT LAW IS "DOMESTIC" IN NATURE DOES NOT RESOLVE THE QUESTION OF THE EXTENT OF RIGHTS GRANTED THEREUNDER.

Fujifilm argues (Br. in Opp. 3–15) that this Court need not consider patent exhaustion by authorized foreign sales because the patent law is "domestic in nature." However, the "domestic" nature of patent law resolves nothing.

"United States patent, copyright and trademark law have all been traditionally tempered by the doctrine of exhaustion, also called the doctrine of first sale." Margreth Barrett, *The United States' Doctrine of Exhaustion: Parallel Imports of Patented Goods*, 27 N. Ky. L. Rev. 911, 911 (2000) (footnotes omitted). The exhaustion rule "provides that once an intellectual property owner releases or authorizes others to release goods bearing or embodying the intellectual property into the stream of commerce, it exhausts its right to control the goods; purchasers and their successors in title are free to use and resell the goods without seeking the intellectual property owner's authorization or paying a further royalty." *Id.* at 912.

The trademark and copyright laws are equally as "domestic" as the patent law; they also operate only within the United States. However, this Court *has* considered whether the rights under these laws extend in a protected article beyond its authorized sale abroad. This Court recognized a qualified rule of international trademark exhaustion by virtue of foreign sales, *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988), and a similar rule for copyrighted works, *Quality King Distribs., Inc. v. L'Anza Research Int'l,*

Inc., 523 U.S. 135 (1998). In *Costco Wholesale Corp. v. Omega, S.A.*, No. 08-1423 (U.S. argued Nov. 8, 2010), the Court is considering whether authorized foreign sales of works produced abroad exhaust copyrights therein.

Merely characterizing patent law as "domestic" does not address when the rights granted thereunder may be exercised, or when they have been exhausted. Having addressed international exhaustion of trademarks and copyrights, this Court now should do so for patents.

The exhaustion doctrine serves policies undergirding U.S. intellectual property laws. First, it honors the disfavor of restraints on alienation, which impair free markets. *Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1096 (3d Cir. 1988); *see also* H.R. Rep. No. 98-987, at 2 (1984) ("[T]he first sale doctrine has its roots in the English common law rule against restraints on alienation of property."). Second, it recognizes that intellectual property rights, granted to promote public welfare, should incentivize inventors to serve the public interest by producing a greater selection of goods for public consumption. *See, e.g.*, *Graham v. John Deere Co. of Kan. City*, 383 U.S. 1, 9 (1966). The exhaustion doctrine contemplates that giving an intellectual property owner exclusive control over the *first* sale of protected goods will create sufficient incentive to invest in creative undertakings; extending rights to control goods beyond their first sale is unnecessary to this purpose, and likely to interfere with other important public goals, such as marketplace competition and free movement of goods. *See, e.g.*, *United States v. Masonite Corp.*, 316 U.S. 265,

277–80 (1942); *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 665–67 (1895)

Historically, U.S. courts followed a rule of international patent exhaustion, qualified by a patentee's ability to contract out of it. *E.g.*, *Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng'g Corp.*, 266 F. 71, (2d Cir. 1920); *Dickerson v. Matheson*, 57 F. 524, 527 (2d Cir. 1893) ("A purchaser in a foreign country, of an article patented in that country and also in the United States, from the owner of each patent, or from a licensee under each patent, who purchases without any restrictions upon the extent of his use or power of sale, acquires an unrestricted ownership in the article, and can use or sell it in this country." (citing, *inter alia*, *Bloomer v. Millinger*, 68 U.S. (1 Wall.) 340 (1864), and *Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544 (1873))); *Kabushiki Kaisha Hattori Seiko v. Refac Tech. Dev. Corp.*, 690 F. Supp. 1339, 1342 (S.D.N.Y. 1988) (explaining that patent exhaustion "applies to an authorized first sale abroad by a patentee or licensee who also has the right to sell in the United States," and that thereafter the patentee "is barred from preventing resale in the United States or from collecting a royalty when the foreign customer resells the article" in the United States); *Holiday v. Mattheson*, 24 F. 185 (C.C.S.D.N.Y. 1885).

The Federal Circuit first addressed international exhaustion in *Jazz Photo Corp. v. United States International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), *cert. denied*, 536 U.S. 950 (2002), where, "[w]ith a few strokes of the pen," one commentator noted, the Federal Circuit "appears to have abandoned this [prior] body of law in favor of [a] strict territorial exhaustion doctrine . . . ." James B.

Kobak, Jr., *Exhaustion of Intellectual Property Rights and International Trade*, 5 Global Econ. J., no. 1, art. 5, at 6 (2005), http://www.bepress.com/gej/vol5/iss1/5/. That decision was based on a misreading of *Boesch v. Graff*, 133 U.S. 697 (1890). Barrett, *supra*, 27 N. Ky. L. Rev. at 944–45; *see* Pet. 17–20.

Whether U.S. patent law is governed by a strictly territorial or an international exhaustion rule has sparked public debate requiring resolution by this Court. *See, e.g.*, Harold C. Wegner, *International Patent Exhaustion: Whither the Supreme Court?* (May 27, 2010), http://grayonclaims.com/storage/InternationalExhaustionMay27.pdf; Derek Dahlgren, *Why Fujifilm Did Not End the Patent Exhaustion Debate*, Law360 (Oct. 29, 2010), http://www.law360.com/web/articles/202640.

Fujifilm's lament (Br. in Opp. 8–12) that its authorized foreign sales did not confer payment specifically tied to its U.S. patent misstates the purpose of patent law, which "has never undertaken to guarantee any particular level of return on patented articles. It primarily seeks to make it more feasible for the patentee to exploit the invention by preventing others from free riding on its research and development investment. There may be no market at all for the patented invention. The Patent Act does not intervene to provide one." Barrett, 27 N. Ky. L. Rev. at 965. Nor does Fujifilm's argument (Br. in Opp. 9–10) that it only exercises its patent rights through a U.S. sale have merit, for U.S. law grants patentees the right not to sell their patented inventions but only to prevent others from doing so. *See* 35 U.S.C. § 154(a) (2002). A patentee may achieve the benefit of the patent law without making any U.S. sale, as clearly established in *Quanta*,

where the Court—in commenting on *United States v. Univis Lens Co.*, 316 U.S. 241 (1942)—indicated that an article may "practice" a U.S. patent when manufactured, sold, or used abroad. *Quanta*, *supra*, 553 U.S. at 627–28.

Here, Fujifilm sold or authorized for sale abroad cameras embodying its patents, and received a bargained-for purchase price or royalty. Fujifilm's worldwide licensing agreements *included the U.S. patents-in-suit* among the rights licensed. Fujifilm also exercised its power to exclude unauthorized persons from selling these cameras in the United States. This power to exclude conferred a benefit, even had Fujifilm sold none of these cameras in the United States.[2]

Fujifilm or its licensees sold every camera, without contractual restrictions, and Fujifilm received bargained-for financial compensation. Should the patent law countenance Fujifilm's exclusion of these lawfully-made, lawfully-sold cameras from the United States, or allow Fujifilm to compel a second royalty from Petitioners? Does the law permit a patentee to sell the same horse twice?

Quanta gives no indication that Fujifilm's patent rights extend beyond the first authorized sale. "The authorized sale of an article that substantially embodies a patent" is what "exhausts the patent holder's rights." *Quanta*, 553 U.S. at 637. Such an authorized sale occurred in this case, regardless of where title to the patented goods passed.[3]

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[2] Fujifilm erroneously contends (Br. in Opp. 10–11), that the benefit from a patent right must be financial payment for the sale of a patented product.

[3] Fujifilm's international price-discrimination concerns are belied by the fact that Fujifilm charged its licensees the same

Fujifilm contends that a mere authorized sale is insufficient to trigger patent exhaustion, as such sale must be coupled with "the patent owner's express or implied authorization to re-sell the product in the United States." Br. in Opp. 10. This has never been the law. Fujifilm's view contradicts this Court's statement in *Quanta* that an "authorized sale," not consent to resale or importation, triggers exhaustion.

Fujifilm authorized and controlled the "first sale" of every camera. Fujifilm seeks now to control the *second* and subsequent *resales* thereof to revive a patent right surrendered upon the authorized first sale. *Quanta* expressly rejected this interpretation of patent law since it "would violate the longstanding principle that, when a patented item is 'once lawfully made and sold, there is no restriction on [its] *use* to be implied for the benefit of the patentee.'" 553 U.S. at 630 (emphasis and alteration in original) (quoting *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 457 (1873)). This is precisely the type of "end run" around the exhaustion doctrine that *Quanta* refused to countenance.

A patentee's consent to resale has never been an element of exhaustion. The purchase of a product from one authorized to sell it has universally been held to give the purchaser "an absolute property [right] in such articles, unrestricted in time or place." *Keeler*, 157 U.S. at 666.

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royalty regardless of where they sold cameras. Moreover, Fujifilm's theory of patent exhaustion would support the relocation abroad of facilities producing patented goods, since the patentee could more easily control goods produced and first-sold abroad than domestic goods. This undermines the patent law's goal of promoting domestic industry.

Exhaustion hardly requires a patentee's consent to importation.[4] Fujifilm consented to Petitioners' re-importation of *no* camera, even one that had undergone an authorized U.S. "first sale," but did not prevail thereon. The exhaustion rule, to work sensibly and predictably, must be guided by objective criteria, such as the existence of an authorized "first sale," rather than, as Fujifilm suggests, a judicial search for a patentee's "express or implied authorization to re-sell the product in the United States," Br. in Opp. 10.

A patentee may contract around the exhaustion rule to control the resale, disposition, or use of patented goods, but its remedies for unauthorized importation would sound in contract rather than patent law, and would require communication of the contractual limitation to affected parties. Where the exhaustion rule is concerned, the policies undergird-

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[4] The Uruguay Round Agreements Act (URAA), Pub. L. No. 103-465, §§ 532–533, 108 Stat. 4809, 4983-90 (1994), amended 35 U.S.C. §§ 154 and 271 to confer on patent owners the right to import patented goods. This implemented Article 28 of the so-called "TRIPS" Agreement addressing international intellectual property rights during the GATT Uruguay Round. *See* Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS"), Apr. 15, 1994, 1869 U.N.T.S. 401. However, TRIPS itself states that "nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights." *Id.* art. 6. The U.S. statement accompanying the URAA notes that TRIPS "does not require any change in current United States law or practice with respect to parallel importation of goods that are the subject of intellectual property rights." Message from the President of the United States Transmitting the Uruguay Round Trade Agreements, H.R. Doc. No. 103-316, at 990–91 (1994). Neither party herein has suggested that the statutory amendment TRIPS requires should influence the issue in the Petition.

ing patent law forbid hidden restraints on alienation of property.

Even absent *Quanta*, the question of whether the authorized foreign sale of a patented good exhausts patent rights therein would be important. Characterizing patent law as "domestic" hardly answers the question; this Court must determine the extent of rights granted thereunder.[5]

II. *QUANTA* DID INVOLVE FOREIGN SALES.

Fujifilm argues (Br. in Opp. 19–20) that *Quanta*, *supra*, did not involve sales made abroad. A brief recently filed in this Court by a former U.S. Solicitor General proves otherwise.

In *Costco*, *supra*, this Court received the *amicus* brief of Intel Corporation, the licensee that made and sold the patented chipsets in *Quanta*. As Intel observed, "This Court unanimously applied the patent exhaustion doctrine in *Quanta* even though *the bulk of goods at issue were manufactured and sold outside the United States*." Br. for Intel Corp. as *Amicus Curiae* Supporting Pet'r at 14–15, *Costco*, No. 08-1423 (U.S. July 9, 2010) (emphasis added). Intel noted that this Court and the Federal Circuit were aware of such foreign sales, and criticized the Federal Circuit's decision in *this* case for suggesting otherwise:

> The Federal Circuit has attempted to reconcile extraterritoriality-based limi-

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[5] Foreign courts have also addressed international exhaustion under their patent laws. *See generally* Kobak (reviewing Japanese and European cases).

> tations with *Quanta* by asserting that *Quanta* "did not involve foreign sales." *Fujifilm* [*v. Benun*], 605 F.3d at 1371. **This factual claim is incorrect**: Before the Federal Circuit, LGE had argued that the district court erred in failing to "restrict its ruling to U.S. sales," noting that "[a] significant portion of the chips Intel sells are manufactured and sold abroad." This Court was "aware that some sales under the license agreement were made overseas," and indeed LGE expressly argued in *Quanta* that "Intel Products would not infringe the patents if they were sold overseas." That this Court was "aware of foreign sales of the Intel parts; yet declined to limit its holding to sales in the United States, suggests that interpreting *Quanta* so as to impose such a limitation would be incorrect."

Br. for Intel Corp. at 18–19 (emphasis added) (citations omitted). Obviously, as the party that sold patented goods in *Quanta*, Intel has first-hand knowledge that those goods were largely sold abroad, and that *Quanta* effectively held that such foreign sales exhausted the patentee's rights to control goods.

Although the goods in *Quanta* were largely sold abroad, this Court's formulation of the exhaustion doctrine there makes no explicit mention of that fact. Intel's brief suggests the reason:

> There was no need for this Court to restrict its reasoning in *Quanta* to goods manufactured or sold domestically for a simple and obvious reason: Applying the exhaustion doctrine to goods manufactured and sold abroad "does not amount to giving extraterritorial effect to the patent law.

Br. for Intel Corp. at 19 (citation omitted).

If this Court intended *Quanta* to embrace patent exhaustion by reason of the authorized sale of patented goods abroad, then it could summarily vacate and reverse the Federal Circuit's decision below, which appears predicated on a misstatement of *Quanta*'s factual underpinnings.[6] Fujifilm's brief concedes (Br. in Opp. 19–20) that this Court knew *Quanta* involved foreign sales.

Whether the locus of the authorized sales was an issue in *Quanta,* it clearly is outcome-determinative here. If this Court intended *Quanta* to be an all-encompassing exhaustion rule, applied without regard to the locus of the patent-exhausting "first sale," then this Court should summarily vacate and reverse the Federal Circuit's decision. Alternatively, if the locus is material to exhaustion, the Petition should be granted to explore and to clarify this ques-

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[6] Summary reversal would demonstrate disapproval of the Federal Circuit's 2001 decision in *Jazz Photo, supra,* which imposed a strict territorial exhaustion rule, and fulfill one commentator's vision that "with scant basis in precedent and an even scantier *ratio decidendi*—and with an outcome that seems at least superficially disjunctive with apparent national policy interests—*Jazz Photo* will simply prove to be an unstable, sometimes circumvented, and relatively short-lived decision." Kobak, *supra,* at 15.

tion of fundamental importance to patentees, licensees, retailers, and consumers.

This case offers this Court perhaps its only chance to address this issue. Unlike trademark and copyright cases, which can originate from any circuit court, patent issues are handled exclusively by the Federal Circuit. Having ruled that the United States imposes a strictly territorial patent exhaustion rule, even post-*Quanta*, the Federal Circuit likely will dispose summarily of any future appeal challenging this view. This case is the appropriate vehicle to address the issue.

CONCLUSION

The Petition for a Writ of Certiorari to the U.S. Court of Appeals for the Federal Circuit should be granted.

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